

GUESS INC
Form 10-Q
December 06, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended October 29, 2016

OR

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

For the transition period from _____ to _____

Commission file number: 1-11893

GUESS?, INC.

(Exact name of registrant as specified in its charter)

Delaware 95-3679695

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

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

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

As of December 1, 2016 the registrant had 84,361,306 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)

	Oct 29, 2016 (unaudited)	Jan 30, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$349,104	\$445,480
Accounts receivable, net	218,205	222,359
Inventories	428,139	311,704
Other current assets	59,479	56,709
Total current assets	1,054,927	1,036,252
Property and equipment, net	272,918	255,344
Goodwill	33,754	33,412
Other intangible assets, net	6,725	7,269
Deferred tax assets	87,212	83,613
Other assets	124,227	122,858
	\$1,579,763	\$1,538,748
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of borrowings and capital lease obligations	\$560	\$4,024
Accounts payable	236,268	177,505
Accrued expenses	127,148	145,530
Total current liabilities	363,976	327,059
Long-term debt	23,540	2,318
Deferred rent and lease incentives	80,025	76,968
Other long-term liabilities	99,347	95,858
	566,888	502,203
Redeemable noncontrolling interests	3,923	5,252
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Preferred stock, \$.01 par value. Authorized 10,000,000 shares; no shares issued and outstanding	—	—
Common stock, \$.01 par value. Authorized 150,000,000 shares; issued 140,545,020 and 140,028,937 shares, outstanding 84,383,138 and 83,833,937 shares, as of October 29, 2016 and January 30, 2016, respectively	844	838
Paid-in capital	478,911	468,574
Retained earnings	1,227,770	1,269,775
Accumulated other comprehensive loss	(146,983)	(158,054)
Treasury stock, 56,161,882 and 56,195,000 shares as of October 29, 2016 and January 30, 2016, respectively	(562,326)	(562,658)
Guess?, Inc. stockholders' equity	998,216	1,018,475
Nonredeemable noncontrolling interests	10,736	12,818
Total stockholders' equity	1,008,952	1,031,293

\$1,579,763 \$1,538,748

See accompanying notes to condensed consolidated financial statements.

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Table of ContentsGUESS?, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

(unaudited)

	Three Months Ended		Nine Months Ended	
	Oct 29, 2016	Oct 31, 2015	Oct 29, 2016	Oct 31, 2015
Product sales	\$512,553	\$493,214	\$1,462,029	\$1,467,110
Net royalties	23,768	27,750	68,066	78,942
Net revenue	536,321	520,964	1,530,095	1,546,052
Cost of product sales	356,079	337,300	1,021,462	998,786
Gross profit	180,242	183,664	508,633	547,266
Selling, general and administrative expenses	165,119	162,826	500,828	495,874
Restructuring charges	—	—	6,083	—
Earnings from operations	15,123	20,838	1,722	51,392
Other income (expense):				
Interest expense	(500	) (292	) (1,478	) (1,456
Interest income	861	273	1,763	784
Other income, net	125	247	26,417	6,581
	486	228	26,702	5,909
Earnings before income tax expense	15,609	21,066	28,424	57,301
Income tax expense	5,880	8,005	11,682	21,774
Net earnings	9,729	13,061	16,742	35,527
Net earnings attributable to noncontrolling interests	626	617	548	1,453
Net earnings attributable to Guess?, Inc.	\$9,103	\$12,444	\$16,194	\$34,074
Net earnings per common share attributable to common stockholders (Note 2):				
Basic	\$0.11	\$0.15	\$0.19	\$0.40
Diluted	\$0.11	\$0.15	\$0.19	\$0.40
Weighted average common shares outstanding attributable to common stockholders (Note 2):				
Basic	83,758	83,985	83,631	84,651
Diluted	83,917	84,373	83,813	84,847
Dividends declared per common share	\$0.225	\$0.225	\$0.675	\$0.675

See accompanying notes to condensed consolidated financial statements.

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GUESS?, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(unaudited)

	Three Months Ended		Nine Months Ended	
	Oct 29, 2016	Oct 31, 2015	Oct 29, 2016	Oct 31, 2015
Net earnings	\$ 9,729	\$ 13,061	\$ 16,742	\$ 35,527
Other comprehensive income (loss) ("OCI"):				
Foreign currency translation adjustment				
Gains (losses) arising during the period	(12,900)	2,230	14,530	(19,406)
Derivative financial instruments designated as cash flow hedges				
Gains (losses) arising during the period	4,181	409	(2,642)	4,835
Less income tax effect	(876)	(79)	684	(847)
Reclassification to net earnings for gains realized	(727)	(2,467)	(3,274)	(8,226)
Less income tax effect	134	309	655	1,121
Marketable securities				
Losses arising during the period	—	(2)	(4)	(16)
Less income tax effect	—	1	3	7
Reclassification to net earnings for losses realized	25	—	25	—
Less income tax effect	(9)	—	(9)	—
Defined benefit plans				
Actuarial gain	—	—	—	11,378
Foreign currency and other adjustments	47	—	(89)	—
Less income tax effect	(5)	—	8	(4,352)
Actuarial loss amortization	86	116	257	1,059
Prior service credit amortization	(7)	—	(21)	(97)
Curtailment	—	—	—	(1,651)
Less income tax effect	(18)	(14)	(56)	359
Total comprehensive income (loss)	(340)	13,564	26,809	19,691
Less comprehensive income (loss) attributable to noncontrolling interests:				
Net earnings	626	617	548	1,453
Foreign currency translation adjustment	(300)	(62)	(1,004)	(662)
Amounts attributable to noncontrolling interests	326	555	(456)	791
Comprehensive income (loss) attributable to Guess?, Inc.	\$ (666)	\$ 13,009	\$ 27,265	\$ 18,900

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Nine Months Ended	
	Oct 29, 2016	Oct 31, 2015
Cash flows from operating activities:		
Net earnings	\$ 16,742	\$ 35,527
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization of property and equipment	49,787	52,370
Amortization of intangible assets	1,407	1,643
Share-based compensation expense	12,768	13,327
Unrealized forward contract gains	(1,455)	(1,697)
Net gain on disposition of long-term assets and property and equipment	(20,231)	(1,254)
Other items, net	4,675	1,707
Changes in operating assets and liabilities:		
Accounts receivable	(808)	16,094
Inventories	(114,783)	(59,330)
Prepaid expenses and other assets	(10,294)	(1,902)
Accounts payable and accrued expenses	32,154	25,934
Deferred rent and lease incentives	2,830	(3,147)
Other long-term liabilities	(3,567)	(14,545)
Net cash provided by (used in) operating activities	(30,775)	64,727
Cash flows from investing activities:		
Purchases of property and equipment	(66,849)	(40,293)
Proceeds from sale of long-term assets	43,399	—
Changes in other assets	—	3,470
Acquisition of businesses, net of cash acquired	(1,635)	(1,263)
Net cash settlement of forward contracts	(298)	7,557
Net cash used in investing activities	(25,383)	(30,529)
Cash flows from financing activities:		
Payment of debt issuance costs	(111)	(1,072)
Proceeds from borrowings	21,500	948
Repayment of capital lease obligations and borrowings	(4,608)	(1,160)
Dividends paid	(57,369)	(57,734)
Purchase of redeemable noncontrolling interest	(4,445)	—
Noncontrolling interest capital contributions	2,157	—
Noncontrolling interest capital distributions	(2,759)	(4,075)
Issuance of common stock, net of tax withholdings on vesting of stock awards	411	(983)
Excess tax benefits from share-based compensation	247	135
Purchase of treasury stock	—	(44,053)
Net cash used in financing activities	(44,977)	(107,994)
Effect of exchange rates on cash and cash equivalents	4,759	(7,301)
Net change in cash and cash equivalents	(96,376)	(81,097)
Cash and cash equivalents at the beginning of the year	445,480	483,483
Cash and cash equivalents at the end of the period	\$ 349,104	\$ 402,386

Supplemental cash flow data:

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Interest paid	\$923	\$771
Income taxes paid	\$15,619	\$17,692

See accompanying notes to condensed consolidated financial statements.

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GUESS?, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

October 29, 2016

(unaudited)

(1)Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements of Guess?, Inc. and its subsidiaries (the “Company”) contain all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation of the condensed consolidated balance sheets as of October 29, 2016 and January 30, 2016, the condensed consolidated statements of income and comprehensive income (loss) for the three and nine months ended October 29, 2016 and October 31, 2015 and the condensed consolidated statements of cash flows for the nine months ended October 29, 2016 and October 31, 2015. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (“GAAP”) for interim financial information and the instructions to Rule 10-01 of Regulation S-X of the Securities and Exchange Commission. Accordingly, they have been condensed and do not include all of the information and footnotes required by GAAP for complete financial statements. The results of operations for the three and nine months ended October 29, 2016 are not necessarily indicative of the results of operations to be expected for the full fiscal year. These financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended January 30, 2016.

The three and nine months ended October 29, 2016 had the same number of days as the three and nine months ended October 31, 2015. All references herein to “fiscal 2017,” “fiscal 2016” and “fiscal 2015” represent the results of the 52-week fiscal year ending January 28, 2017 and the 52-week fiscal years ended January 30, 2016 and January 31, 2015, respectively.

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.

Sale of Other Assets

On May 30, 2016, the Company sold its minority interest equity holding in a privately-held boutique apparel company for net proceeds of approximately \$34.8 million, which resulted in a gain of approximately \$22.3 million which was recorded in other income during the nine months ended October 29, 2016. The gain was recorded during the three months ended July 30, 2016.

New Accounting Guidance

Changes in Accounting Policies

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

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

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

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In May 2015, the FASB issued authoritative guidance which eliminates the disclosure requirement to categorize investments within the fair value hierarchy that are measured at fair value using the net asset value per share practical expedient. The Company adopted this guidance effective January 31, 2016. The adoption of this guidance did not have a material impact on the Company's condensed consolidated financial statements or related disclosures.

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

Recently Issued Accounting Guidance

In May 2014, the FASB issued a comprehensive new revenue recognition standard which will supersede previous existing revenue recognition guidance. The standard creates a five-step model for revenue recognition that requires companies to exercise judgment when considering contract terms and relevant facts and circumstances. The five-step model includes (1) identifying the contract, (2) identifying the separate performance obligations in the contract, (3) determining the transaction price, (4) allocating the transaction price to the separate performance obligations and (5) recognizing revenue when each performance obligation has been satisfied. The standard also requires expanded disclosures surrounding revenue recognition. During the first nine months of fiscal 2017, the FASB issued additional clarification guidance on the new revenue recognition standard which also included certain scope improvements and practical expedients. The standard (including clarification guidance issued) is effective for fiscal periods beginning after December 15, 2017, which will be the Company's first quarter of fiscal 2019, and allows for either full retrospective or modified retrospective adoption. Early adoption is permitted for fiscal periods beginning after December 15, 2016, which will be the Company's first quarter of fiscal 2018. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements and related disclosures, including the choice of application method upon adoption.

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

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

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

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

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 August 2016, the FASB issued authoritative guidance related to the classification of certain cash receipts and cash payments in the statement of cash flows. This guidance is effective for fiscal years beginning after December 15, 2017, which will be the Company's first quarter of fiscal 2019, with early adoption permitted. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements and related disclosures.

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. This guidance is effective for fiscal years beginning after December 15, 2017, which will be the Company's first quarter of fiscal 2019, and requires a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. Early adoption is permitted at the beginning of a fiscal year. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements or related disclosures.

In October 2016, the FASB issued authoritative guidance that requires an entity to include indirect interests held through related parties that are under common control on a proportionate basis when evaluating if a reporting entity is the primary beneficiary of a variable interest entity. This guidance is effective for fiscal periods beginning after December 15, 2016, which will be the Company's first quarter of fiscal 2018, and requires retrospective adoption, with early adoption permitted. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements and related disclosures.

In November 2016, the FASB issued authoritative guidance related to the presentation of restricted cash in the statement of cash flows. This guidance is effective for fiscal years beginning after December 15, 2017, which will be the Company's first quarter of fiscal 2019, and requires retrospective adoption, with early adoption permitted. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements and related disclosures.

(2) Earnings Per Share

Basic earnings per share represents net earnings attributable to common stockholders divided by the weighted average number of common shares outstanding during the period. The Company has granted restricted stock units with forfeitable dividend rights that have been classified as issued and outstanding but are considered contingently returnable as a result of certain service conditions. These restricted stock units are considered common equivalent shares outstanding and are excluded from the weighted average number of common shares outstanding and basic earnings per share calculation until the respective service conditions have been met. Diluted earnings per share represents net earnings attributable to common stockholders divided by the weighted average number of common shares outstanding, inclusive of the dilutive impact of common equivalent shares outstanding during the period. However, nonvested restricted stock awards (referred to as participating securities) are excluded from the dilutive impact of common equivalent shares outstanding in accordance with authoritative guidance under the two-class

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

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

	Three Months Ended		Nine Months Ended	
	Oct 29, 2016	Oct 31, 2015	Oct 29, 2016	Oct 31, 2015
Net earnings attributable to Guess?, Inc.	\$ 9,103	\$ 12,444	\$ 16,194	\$ 34,074
Less net earnings attributable to nonvested restricted stockholders	126	137	411	363
Net earnings attributable to common stockholders	\$ 8,977	\$ 12,307	\$ 15,783	\$ 33,711
Weighted average common shares used in basic computations	83,758	83,985	83,631	84,651
Effect of dilutive securities:				
Stock options and restricted stock units	159	388	182	196
Weighted average common shares used in diluted computations	83,917	84,373	83,813	84,847
Net earnings per common share attributable to common stockholders:				
Basic	\$ 0.11	\$ 0.15	\$ 0.19	\$ 0.40
Diluted	\$ 0.11	\$ 0.15	\$ 0.19	\$ 0.40

For the three months ended October 29, 2016 and October 31, 2015, equity awards granted for 3,463,100 and 2,357,138, respectively, of the Company's common shares and for the nine months ended October 29, 2016 and October 31, 2015, equity awards granted for 3,239,163 and 2,530,121, 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 and nine months ended October 29, 2016, the Company also excluded 602,816 nonvested stock units which are 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 October 29, 2016. For the three and nine months ended October 31, 2015, the Company excluded 425,866 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 October 31, 2015.

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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. There were no share repurchases during the three and nine months ended October 29, 2016. During the three and nine months ended October 31, 2015, the Company repurchased 2,000,000 shares under the program at an aggregate cost of \$44.0 million. As of October 29, 2016, the Company had remaining authority under the program to purchase \$451.8 million of its common stock.

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(3) Stockholders' Equity and Redeemable Noncontrolling Interests

A reconciliation of common stock outstanding, treasury stock and the total carrying amount of total stockholders' equity, Guess?, Inc. stockholders' equity and stockholders' equity attributable to nonredeemable and redeemable noncontrolling interests for the fiscal year ended January 30, 2016 and nine months ended October 29, 2016 is as follows (in thousands, except share data):

	Shares		Stockholders' Equity			Redeemable Noncontrolling Interests
	Common Stock	Treasury Stock	Guess?, Inc. Stockholders' Equity	Nonredeemable Noncontrolling Interests	Total	
Balance at January 31, 2015	85,323,154	54,235,846	\$ 1,073,856	\$ 15,590	\$ 1,089,446	\$ 4,437
Net earnings	—	—	81,851	2,964	84,815	—
Foreign currency translation adjustment	—	—	(36,083)	(1,661)	(37,744)	(476)
Gain on derivative financial instruments designated as cash flow hedges, net of income tax of (\$559)	—	—	95	—	95	—
Unrealized loss on marketable securities, net of income tax of \$7	—	—	(12)	—	(12)	—
Actuarial valuation gain (loss) and related amortization, plan amendment, curtailment, prior service credit amortization and foreign currency and other adjustments on defined benefit plans, net of income tax of (\$2,972)	—	—	5,011	—	5,011	—
Issuance of common stock under stock compensation plans, net of tax effect	469,937	—	(4,023)	—	(4,023)	—
Issuance of stock under Employee Stock Purchase Plan	40,846	(40,846)	660	—	660	—
Share-based compensation	—	—	18,880	—	18,880	—
Dividends	—	—	(77,287)	—	(77,287)	—
Share repurchases	(2,000,000)	2,000,000	(44,053)	—	(44,053)	—
Noncontrolling interest capital contribution	—	—	—	—	—	871
Noncontrolling interest capital distribution	—	—	—	(4,075)	(4,075)	—
Redeemable noncontrolling interest redemption value adjustment	—	—	(420)	—	(420)	420
Balance at January 30, 2016	83,833,937	56,195,000	\$ 1,018,475	\$ 12,818	\$ 1,031,293	\$ 5,252
Net earnings	—	—	16,194	548	16,742	—
Foreign currency translation adjustment	—	—	15,534	(1,004)	14,530	289
Loss on derivative financial instruments designated as cash flow hedges, net of income tax of \$1,339	—	—	(4,577)	—	(4,577)	—
Other-than-temporary-impairment and unrealized loss on marketable securities, net of income tax of (\$6)	—	—	15	—	15	—
Actuarial valuation and prior service credit amortization and foreign	—	—	99	—	99	—

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currency and other adjustments on
defined benefit plans, net of income tax
of (\$48)

Issuance of common stock under stock compensation plans, net of tax effect	516,083	—	(1,219	) —	(1,219) —	
Issuance of stock under Employee Stock Purchase Plan	33,118	(33,118	) 442	—	442	—
Share-based compensation	—	—	12,768	—	12,768	—	
Dividends	—	—	(57,712	) —	(57,712) —	
Purchase of redeemable noncontrolling interest	—	—	(1,133) 1,133	—	(4,445)
Noncontrolling interest capital contribution	—	—	—	—	—	2,157	
Noncontrolling interest capital distribution	—	—	—	(2,759	) (2,759) —	
Redeemable noncontrolling interest redemption value adjustment	—	—	(670	) —	(670	) 670
Balance at October 29, 2016	84,383,138	56,161,882	\$998,216	\$ 10,736	\$1,008,952	\$ 3,923	

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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 and nine months ended October 29, 2016 and October 31, 2015 are as follows (in thousands):

Three Months Ended Oct 29, 2016

	Foreign Currency Translation Adjustment	Derivative Financial Instruments Designated as Cash Flow Hedges	Marketable Securities	Defined Benefit Plans	Total
Balance at July 30, 2016	\$(129,518)	\$ (37)	\$ (16)	\$(7,643)	\$(137,214)
Gains (losses) arising during the period	(12,600)	3,305	—	42	(9,253)
Reclassification to net earnings for (gains) losses realized	—	(593)	16	61	(516)
Net other comprehensive income (loss)	(12,600)	2,712	16	103	(9,769)
Balance at October 29, 2016	\$(142,118)	\$ 2,675	\$ —	\$(7,540)	\$(146,983)

Nine Months Ended Oct 29, 2016

	Foreign Currency Translation Adjustment	Derivative Financial Instruments Designated as Cash Flow Hedges	Marketable Securities	Defined Benefit Plans	Total
Balance at January 30, 2016	\$(157,652)	\$ 7,252	\$ (15)	\$(7,639)	\$(158,054)
Gains (losses) arising during the period	15,534	(1,958)	(1)	(81)	13,494
Reclassification to net earnings for (gains) losses realized	—	(2,619)	16	180	(2,423)
Net other comprehensive income (loss)	15,534	(4,577)	15	99	11,071
Balance at October 29, 2016	\$(142,118)	\$ 2,675	\$ —	\$(7,540)	\$(146,983)

Three Months Ended Oct 31, 2015

	Foreign Currency Translation Adjustment	Derivative Financial Instruments Designated as Cash Flow Hedges	Marketable Securities	Defined Benefit Plans	Total
Balance at August 1, 2015	\$(142,605)	\$ 5,868	\$ (11)	\$(6,056)	\$(142,804)
Gains (losses) arising during the period	2,292	330	(1)	—	2,621
Reclassification to net earnings for (gains) losses realized	—	(2,158)	—	102	(2,056)
Net other comprehensive income (loss)	2,292	(1,828)	(1)	102	565
Balance at October 31, 2015	\$(140,313)	\$ 4,040	\$ (12)	\$(5,954)	\$(142,239)

Nine Months Ended Oct 31, 2015

Foreign Currency Translation Adjustment	Derivative Financial Instruments Designated as Cash	Marketable Securities	Defined Benefit Plans	Total
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		Flow Hedges			
Balance at January 31, 2015	\$(121,569)	\$ 7,157	\$ (3)	\$(12,650)	\$(127,065)
Gains (losses) arising during the period	(18,744)	3,988	(9)	7,026	(7,739)
Reclassification to net earnings for gains realized	—	(7,105)	—	(330)	(7,435)
Net other comprehensive income (loss)	(18,744)	(3,117)	(9)	6,696	(15,174)
Balance at October 31, 2015	\$(140,313)	\$ 4,040	\$ (12)	\$(5,954)	\$(142,239)

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Details on reclassifications out of accumulated other comprehensive income (loss) to net earnings during the three and nine months ended October 29, 2016 and October 31, 2015 are as follows (in thousands):

	Three Months Ended		Nine Months Ended		Location of (Gain) Loss Reclassified from Accumulated OCI into Earnings
	Oct 29, 2016	Oct 31, 2015	Oct 29, 2016	Oct 31, 2015	
Derivative financial instruments designated as cash flow hedges:					
Foreign exchange currency contracts	\$(739)	\$(2,507)	\$(3,315)	\$(7,450)	Cost of product sales
Foreign exchange currency contracts	(45)	40	(126)	(776)	Other income/expense
Interest rate swap	57	—	167	—	Interest expense
Less income tax effect	134	309	655	1,121	Income tax expense
	(593)	(2,158)	(2,619)	(7,105)	
Marketable securities:					
Available-for-sale securities	25	—	25	—	Other income/expense
Less income tax effect	(9)	—	(9)	—	Income tax expense
	16	—	16	—	
Defined benefit plans:					
Actuarial loss amortization	86	116	257	1,059	(1)
Prior service credit amortization	(7)	—	(21)	(97)	(1)
Curtailement	—	—	—	(1,651)	(1)
Less income tax effect	(18)	(14)	(56)	359	Income tax expense
	61	102	180	(330)	
Total reclassifications during the period	\$(516)	\$(2,056)	\$(2,423)	\$(7,435)	

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

Redeemable Noncontrolling Interests

The Company is party to a put arrangement with respect to the common securities that represent the remaining noncontrolling interest for its majority-owned subsidiary, Guess Brasil Comércio e Distribuição S.A. (“Guess Brazil”), which was established through a majority-owned joint venture during fiscal 2014. The put arrangement for Guess Brazil, representing 40% of the total outstanding equity interest of that subsidiary, may be exercised at the discretion of the noncontrolling interest holder by providing written notice to the Company beginning in the sixth year of the agreement, or sooner in certain limited circumstances, and every third anniversary from the end of the sixth year thereafter subject to certain time restrictions. The redemption value of the Guess Brazil put arrangement is based on a multiple of Guess Brazil’s earnings before interest, taxes, depreciation and amortization subject to certain adjustments and is classified as a redeemable noncontrolling interest outside of permanent equity in the Company’s condensed consolidated balance sheet. During the nine months ended October 29, 2016, the Company and the noncontrolling interest holder increased their capital contributions by \$1.7 million, of which \$1.0 million was paid by the Company and the remaining amount was paid by the noncontrolling interest holder to retain the same pro-rata interest in Guess Brazil. The carrying value of the redeemable noncontrolling interest related to Guess Brazil was \$1.6 million and \$0.7 million as of October 29, 2016 and January 30, 2016, respectively.

During fiscal 2016, the Company entered into a new majority-owned joint venture to establish Guess? CIS, LLC (“Guess CIS”) which is based in Russia. The Company made an initial contribution of \$2.0 million to obtain a 70% interest in Guess CIS and is party to a put arrangement with respect to the common securities that represent the remaining noncontrolling interest. During the nine months ended October 29, 2016, the Company and the

noncontrolling interest holder increased their capital contributions by \$5.0 million, of which \$3.5 million was paid by the Company and the remaining amount was paid by the noncontrolling interest holder to retain the same pro-rata interest in Guess CIS. The put arrangement may be exercised at the discretion of the noncontrolling interest holder by providing written notice to the Company during the period beginning after the fifth anniversary of the agreement through December 31, 2025, or sooner in certain limited circumstances. The redemption value of the Guess CIS put arrangement is based on a multiple of Guess CIS's earnings before interest, taxes, depreciation

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and amortization subject to certain adjustments and is classified as a redeemable noncontrolling interest outside of permanent equity in the Company's condensed consolidated balance sheet. The carrying value of the redeemable noncontrolling interest related to Guess CIS was \$2.3 million and \$0.9 million as of October 29, 2016 and January 30, 2016, respectively.

The Company was previously party to a put arrangement in connection with its now wholly-owned subsidiary, Guess Sud SAS ("Guess Sud"). Under the terms of this put arrangement, which represented 40% of the total outstanding interest of that subsidiary, the noncontrolling interest holder had the option to exercise the put arrangement at its discretion by providing written notice to the Company any time after January 30, 2012. The redemption value of the put arrangement was determined based on a method which approximated fair value. In May 2016, the Company acquired the remaining 40% interest in Guess Sud for \$4.4 million. At January 30, 2016, the redemption value related to the Guess Sud put arrangement was \$3.7 million and was included in redeemable noncontrolling interests.

(4) Accounts Receivable

Accounts receivable is summarized as follows (in thousands):

	Oct 29, 2016	Jan 30, 2016
Trade	\$223,597	\$222,972
Royalty	20,333	16,443
Other	9,734	16,493
	253,664	255,908
Less allowances	35,459	33,549
	\$218,205	\$222,359

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

(5) Inventories

Inventories consist of the following (in thousands):

	Oct 29, 2016	Jan 30, 2016
Raw materials	\$1,154	\$1,150
Work in progress	63	92
Finished goods	426,922	310,462
	\$428,139	\$311,704

The above balances include an allowance to write down inventories to the lower of cost or market of \$20.2 million and \$15.9 million as of October 29, 2016 and January 30, 2016, respectively.

(6) Restructuring Charges

During the first quarter of fiscal 2017, the Company implemented a global cost reduction and restructuring plan to better align its global cost and organizational structure with its current strategic initiatives. This plan included the consolidation and streamlining of the Company's business processes and a reduction in its global workforce and other expenses. These actions resulted in restructuring charges related primarily to cash-based severance costs of \$6.1 million during the nine months ended October 29, 2016. There were no restructuring charges incurred during the three months ended October 29, 2016 related to this plan. The Company does not expect significant future cash-based severance charges to be incurred as the actions under this plan were substantially completed during the first quarter of fiscal 2017. As of October 29, 2016, the Company had a balance

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of approximately \$0.6 million in accrued expenses for amounts expected to be paid during the remainder of fiscal 2017.

The following table summarizes restructuring activities related primarily to severance during the three and nine months ended October 29, 2016 (in thousands):

	Three Months Ended Oct 29, 2016
Balance at July 30, 2016	\$1,131
Cash payments	(694)
Foreign currency and other adjustments	168
Balance at October 29, 2016	\$605
	Nine Months Ended Oct 29, 2016
Balance at January 30, 2016	\$ —
Charges to operations	6,083
Cash payments	(5,530)
Foreign currency and other adjustments	52
Balance at October 29, 2016	\$ 605

During the nine months ended October 29, 2016, the Company also incurred an estimated exit tax charge of approximately \$1.9 million related to its reorganization in Europe as a result of the global cost reduction and restructuring plan. The estimated exit tax charge was recorded during the three months ended April 30, 2016. The exit tax charge has not been finalized with the local authorities and actual amounts could differ significantly from these estimates as negotiations are completed.

(7) Income Taxes

Income tax expense for the interim periods was computed using the effective tax rate estimated to be applicable for the full fiscal year. The Company's effective income tax rate increased to 41.1% for the nine months ended October 29, 2016 compared to 38.0% for the nine months ended October 31, 2015. The increase in the effective income tax rate was due primarily to more losses incurred in certain foreign jurisdictions where the Company has valuation allowances and a shift in the distribution of earnings among the Company's tax jurisdictions within the quarters of the current fiscal year, partially offset by the favorable impact of a lower tax rate on the gain from the sale of a minority interest investment during the nine months ended October 29, 2016 compared to the same prior-year period.

From time-to-time, the Company is subject to routine income tax audits on various tax matters around the world in the ordinary course of business. As of October 29, 2016, several income tax audits were underway for various periods in multiple jurisdictions. The Company accrues an amount for its estimate of additional income tax liability which the Company, more likely than not, could incur as a result of the ultimate resolution of income tax audits ("uncertain tax positions"). The Company reviews and updates the estimates used in the accrual for uncertain tax positions as more definitive information becomes available from taxing authorities, upon completion of tax audits, upon expiration of statutes of limitation, or upon occurrence of other events.

The Company had aggregate accruals for uncertain tax positions, including penalties and interest, of \$14.8 million and \$13.9 million as of October 29, 2016 and January 30, 2016, respectively. The change in the accrual balance from January 30, 2016 to October 29, 2016 resulted from interest and penalties during the nine months ended October 29, 2016.

(8) Segment Information

The Company's businesses are grouped into five reportable segments for management and internal financial reporting purposes: Americas Retail, Europe, Asia, Americas Wholesale and Licensing. The Company's operating

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segments are the same as its reportable segments. Management evaluates segment performance based primarily on revenues and earnings (loss) from operations before restructuring charges, if any. The Company believes this segment reporting reflects how its five business segments are managed and how each segment's performance is evaluated by the Company's chief operating decision maker to assess performance and make resource allocation decisions. The Americas Retail segment includes the Company's retail and e-commerce operations in North and Central America and its retail operations in South America. The Europe segment includes the Company's retail, e-commerce and wholesale operations in Europe and the Middle East. The Asia segment includes the Company's retail, e-commerce and wholesale operations in Asia. The Americas Wholesale segment includes the Company's wholesale operations in the Americas. The Licensing segment includes the worldwide licensing operations of the Company. The business segment operating results exclude corporate overhead costs, which consist of shared costs of the organization, and restructuring charges. These costs are presented separately and generally include, among other things, the following unallocated corporate costs: accounting and finance, executive compensation, facilities, global advertising and marketing, human resources, information technology and legal.

Net revenue and earnings (loss) from operations are summarized as follows for the three and nine months ended October 29, 2016 and October 31, 2015 (in thousands):

	Three Months Ended		Nine Months Ended	
	Oct 29, 2016	Oct 31, 2015	Oct 29, 2016	Oct 31, 2015
Net revenue:				
Americas Retail	\$215,862	\$226,599	\$646,573	\$673,304
Europe	187,008	160,696	535,855	497,468
Asia	64,865	59,100	172,241	179,880
Americas Wholesale	44,818	46,819	107,360	116,458
Licensing	23,768	27,750	68,066	78,942
Total net revenue	\$536,321	\$520,964	\$1,530,095	\$1,546,052
Earnings (loss) from operations:				
Americas Retail	\$(10,614)	\$(2,053)	\$(24,829)	\$(4,018)
Europe	11,157	6,150	16,105	20,668
Asia	(1,049)	2,794	(5,264)	8,294
Americas Wholesale	7,814	9,583	16,764	21,202
Licensing	20,141	24,842	60,289	70,282
Corporate Overhead	(12,326)	(20,478)	(55,260)	(65,036)
Restructuring Charges	—	—	(6,083)	—
Total earnings from operations	\$15,123	\$20,838	\$1,722	\$51,392

Due to the seasonal nature of the Company's business segments, the above net revenue and operating results are not necessarily indicative of the results that may be expected for the full fiscal year. Restructuring charges incurred during the nine months ended October 29, 2016 related to plans to better align the Company's global cost and organizational structure with its current strategic initiatives. Refer to Note 6 for more information regarding these restructuring charges.

(9) Borrowings and Capital Lease Obligations

Borrowings and capital lease obligations are summarized as follows (in thousands):

	Oct 29, 2016	Jan 30, 2016
Mortgage debt, maturing monthly through January 2026	\$21,025	\$—
European capital lease, matured quarterly through May 2016	—	4,024
Other	3,075	2,318
	24,100	6,342
Less current installments	560	4,024
Long-term debt	\$23,540	\$2,318

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Mortgage Debt

On February 16, 2016, the Company entered into a ten-year \$21.5 million real estate secured loan (the “Mortgage Debt”). The Mortgage Debt is secured by the Company’s U.S. distribution center based in Louisville, Kentucky and provides for monthly principal and interest payments based on a 25-year amortization schedule, with the remaining principal balance and any accrued and unpaid interest due at maturity. Outstanding principal balances under the Mortgage Debt bear interest at the one-month LIBOR rate plus 1.5%. As of October 29, 2016, outstanding borrowings under the Mortgage Debt, net of debt issuance costs of \$0.1 million, were \$21.0 million.

The Mortgage Debt requires the Company to comply with a fixed charge coverage ratio on a trailing four-quarter basis if consolidated cash, cash equivalents and short term investment balances fall below certain levels. In addition, the Mortgage Debt contains customary covenants, including covenants that limit or restrict the Company’s ability to incur liens on the mortgaged property and enter into certain contractual obligations. Upon the occurrence of an event of default under the Mortgage Debt, the lender may terminate the Mortgage Debt and declare all amounts outstanding to be immediately due and payable. The Mortgage Debt specifies a number of events of default (some of which are subject to applicable grace or cure periods), including, among other things, non-payment defaults, covenant defaults, cross-defaults to other material indebtedness, bankruptcy and insolvency defaults and material judgment defaults.

On February 16, 2016, the Company also entered into a separate interest rate swap agreement, designated as a cash flow hedge, that resulted in a swap fixed rate of approximately 3.06%. This interest rate swap agreement matures in January 2026 and converts the nature of the Mortgage Debt from LIBOR floating-rate debt to fixed-rate debt. The fair value of the interest rate swap liability as of October 29, 2016 was approximately \$0.2 million.

Credit Facilities

On June 23, 2015, the Company entered into a five-year senior secured asset-based revolving credit facility with Bank of America, N.A. and the other lenders party thereto (the “Credit Facility”). The Credit Facility provides for a borrowing capacity in an amount up to \$150 million, including a Canadian sub-facility up to \$50 million, subject to a borrowing base. Based on applicable accounts receivable, inventory and eligible cash balances as of October 29, 2016, the Company could have borrowed up to \$146 million under the Credit Facility. The Credit Facility has an option to expand the borrowing capacity by up to \$150 million subject to certain terms and conditions, including the willingness of existing or new lenders to assume such increased amount. The Credit Facility is available for direct borrowings and the issuance of letters of credit, subject to certain letters of credit sublimits, and may be used for working capital and other general corporate purposes.

All obligations under the Credit Facility are unconditionally guaranteed by the Company and the Company’s existing and future domestic and Canadian subsidiaries, subject to certain exceptions, and are secured by a first priority lien on substantially all of the assets of the Company and such domestic and Canadian subsidiaries, as applicable.

Direct borrowings under the Credit Facility made by the Company and its domestic subsidiaries shall bear interest at the U.S. base rate plus an applicable margin (varying from 0.25% to 0.75%) or at LIBOR plus an applicable margin (varying from 1.25% to 1.75%). The U.S. base rate is based on the greater of (i) the U.S. prime rate, (ii) the federal funds rate, plus 0.5%, and (iii) LIBOR for a 30 day interest period, plus 1.0%. Direct borrowings under the Credit Facility made by the Company’s Canadian subsidiaries shall bear interest at the Canadian prime rate plus an applicable margin (varying from 0.25% to 0.75%) or at the Canadian BA rate plus an applicable margin (varying from 1.25% to 1.75%). The Canadian prime rate is based on the greater of (i) the Canadian prime rate, (ii) the Bank of Canada overnight rate, plus 0.5%, and (iii) the Canadian BA rate for a one month interest period, plus 1.0%. The applicable margins are calculated quarterly and vary based on the average daily availability of the aggregate borrowing base. The Company is also obligated to pay certain commitment, letter of credit and other fees customary for a credit facility of this size and type. As of October 29, 2016, the Company had \$0.7 million in outstanding standby letters of credit, \$3.0 million in outstanding documentary letters of credit and no outstanding borrowings under the Credit Facility.

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The Credit Facility requires the Company to comply with a fixed charge coverage ratio on a trailing four-quarter basis if a default or an event of default occurs under the Credit Facility or if the borrowing capacity falls below certain levels. In addition, the Credit Facility contains customary covenants, including covenants that limit or restrict the Company and certain of its subsidiaries' ability to: incur liens, incur indebtedness, make investments, dispose of assets, make certain restricted payments, merge or consolidate and enter into certain transactions with affiliates. Upon the occurrence of an event of default under the Credit Facility, the lenders may cease making loans, terminate the Credit Facility and declare all amounts outstanding to be immediately due and payable. The Credit Facility specifies a number of events of default (some of which are subject to applicable grace or cure periods), including, among other things, non-payment defaults, covenant defaults, cross-defaults to other material indebtedness, bankruptcy and insolvency defaults and material judgment defaults. The Credit Facility allows for both secured and unsecured borrowings outside of the Credit Facility up to specified amounts.

The Company, through its European subsidiaries, maintains short-term uncommitted borrowing agreements, primarily for working capital purposes, with various banks in Europe. The majority of the borrowings under these agreements are secured by specific accounts receivable balances. Based on the applicable accounts receivable balances as of October 29, 2016, the Company could have borrowed up to \$67.3 million under these agreements. As of October 29, 2016, the Company had no outstanding borrowings or outstanding documentary letters of credit under these agreements. The agreements are denominated primarily in euros and provide for annual interest rates ranging from 0.5% to 5.0%. The maturities of any short-term borrowings under these arrangements are generally linked to the credit terms of the underlying accounts receivable that secure the borrowings. With the exception of one facility for up to \$38.5 million that has a minimum net equity requirement, there are no other financial ratio covenants.

Capital Lease

The Company leased a building in Florence, Italy under a capital lease which provided for minimum lease payments through May 1, 2016, at which point, the title of the building was transferred to the Company. The Company had a separate interest rate swap agreement designated as a non-hedging instrument that converted the nature of the capital lease obligation from Euribor floating-rate debt to fixed-rate debt and resulted in a swap fixed rate of 3.55%. This interest rate swap agreement matured on February 1, 2016.

Other

From time-to-time, the Company will obtain other financing in foreign countries for working capital to finance its local operations.

(10) Share-Based Compensation

The following table summarizes the share-based compensation expense recognized under all of the Company's stock plans during the three and nine months ended October 29, 2016 and October 31, 2015 (in thousands):

	Three Months Ended		Nine Months Ended	
	Oct 29, 2016	Oct 31, 2015	Oct 29, 2016	Oct 31, 2015
Stock options	\$ 520	\$ 575	\$ 1,654	\$ 1,495
Stock awards/units	3,176	4,670	11,000	11,707
Employee Stock Purchase Plan	23	30	114	125
Total share-based compensation expense	\$ 3,719	\$ 5,275	\$ 12,768	\$ 13,327

Unrecognized compensation cost, adjusted for estimated forfeitures, related to nonvested stock options and nonvested stock awards/units totaled approximately \$4.2 million and \$24.7 million, respectively, as of October 29, 2016. This cost is expected to be recognized over a weighted average period of 1.8 years. The weighted average grant date fair value of options granted was \$3.53 and \$3.74 during the nine months ended October 29, 2016 and October 31, 2015, respectively.

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Grants

On April 29, 2016, the Company granted select key management 602,816 nonvested stock units which are subject to certain performance-based vesting or market-based vesting conditions.

On July 7, 2015, the Company granted Victor Herrero, the Company's Chief Executive Officer, 600,000 stock options and 250,000 nonvested stock units in connection with an employment agreement entered into between the Company and Mr. Herrero (the "Herrero Employment Agreement"). Mr. Herrero was also granted 150,000 restricted stock units that were considered contingently returnable as a result of certain service conditions set forth in the Herrero Employment Agreement. These service conditions were met during the nine months ended October 29, 2016.

Annual Grants

On March 30, 2016, the Company made an annual grant of 616,450 stock options and 442,000 nonvested stock awards/units to its employees. On April 2, 2015, the Company made an annual grant of 577,700 stock options and 401,700 nonvested stock awards/units to its employees.

Performance-Based Awards

The Company has granted certain nonvested stock units subject to performance-based vesting conditions to select executive officers. Each award of nonvested stock units generally has an initial vesting period from the date of the grant through the end of the first fiscal year followed by annual vesting periods which may range from two-to-three years. The nonvested stock units are subject to the achievement of certain performance-based vesting conditions during the first fiscal year of the grant as well as continued service requirements through each of the vesting periods. The Company has also granted a target number of nonvested stock units to select key management, including certain executive officers. The number of shares that may ultimately vest with respect to each award may range from 0% up to 200% of the target number of shares, subject to the achievement of certain performance-based vesting conditions which may relate to the first fiscal year of the grant or the third fiscal year of the grant. Any shares that are ultimately issued are scheduled to vest at the end of the third fiscal year following the grant date.

The following table summarizes the activity for nonvested performance-based units during the nine months ended October 29, 2016:

	Number of Units	Weighted Average Grant Date Fair Value
Nonvested at January 30, 2016	580,000	\$ 22.65
Granted	462,359	18.35
Vested	(241,922)	25.98
Forfeited	—	—
Nonvested at October 29, 2016	800,437	\$ 19.16

Market-Based Awards

The Company has granted certain nonvested stock units subject to market-based vesting conditions to select executive officers. The number of shares that may ultimately vest will equal 0% to 150% of the target number of shares, subject to the performance of the Company's total stockholder return ("TSR") relative to the TSR of a select group of peer companies over a three-year period. Vesting is also subject to continued service requirements through the vesting date.

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The following table summarizes the activity for nonvested market-based units during the nine months ended October 29, 2016:

	Number of Units	Weighted Average Grant Date Fair Value
Nonvested at January 30, 2016	183,368	\$ 17.72
Granted	140,457	15.20
Vested	—	—
Forfeited	—	—
Nonvested at October 29, 2016	323,825	\$ 16.63

(11) Related Party Transactions

The Company and its subsidiaries periodically enter into transactions with other entities or individuals that are considered related parties, including certain transactions with entities affiliated with trusts for the respective benefit of Paul Marciano, who is an executive and member of the Board of the Company, and Maurice Marciano, Chairman Emeritus and member of the Board, and certain of their children (the “Marciano Trusts”).

Leases

The Company leases warehouse and administrative facilities, including the Company’s corporate headquarters in Los Angeles, California, from partnerships affiliated with the Marciano Trusts and certain of their affiliates. There were four of these leases in effect as of October 29, 2016 with expiration dates ranging from calendar years 2017 to 2020. In January 2016, the Company sold an approximately 140,000 square foot parking lot located adjacent to the Company’s corporate headquarters to a partnership affiliated with the Marciano Trusts for a sales price of \$7.5 million, which was subsequently collected during the nine months ended October 29, 2016. Concurrent with the sale, the Company entered into a lease agreement to lease back the parking lot from the purchaser. During the fourth quarter of fiscal 2016, the Company recognized a net gain of approximately \$3.4 million in other income as a result of these transactions.

Aggregate rent, common area maintenance charges and property tax expense recorded under these four related party leases for the nine months ended October 29, 2016 and October 31, 2015 was \$3.8 million and \$4.0 million, respectively. The Company believes that the terms of the related party leases and parking lot sale have not been significantly affected by the fact that the Company and the lessors are related.

Aircraft Arrangements

The Company periodically charters aircraft owned by MPM Financial, LLC (“MPM Financial”), an entity affiliated with the Marciano Trusts, through informal arrangements with MPM Financial and independent third party management companies contracted by MPM Financial to manage its aircraft. The total fees paid under these arrangements for the nine months ended October 29, 2016 and October 31, 2015 were approximately \$0.8 million and \$0.3 million, respectively.

These related party disclosures should be read in conjunction with the disclosure concerning related party transactions in the Company’s Annual Report on Form 10-K for the year ended January 30, 2016.

(12) Commitments and Contingencies

Leases

The Company leases its showrooms, advertising, licensing, sales and merchandising offices, remote distribution and warehousing facilities and retail and factory outlet store locations under operating lease agreements expiring on various dates through September 2031. Some of these leases require the Company to make periodic payments for property taxes, utilities and common area operating expenses. Certain retail store leases provide for rents based upon the minimum annual rental amount and a percentage of annual sales volume,

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generally ranging from 5% to 15%, when specific sales volumes are exceeded. The Company's concession leases also provide for rents primarily based upon a percentage of annual sales volume which average approximately 34% of annual sales volume. Some leases include lease incentives, rent abatements and fixed rent escalations, which are amortized and recorded over the initial lease term on a straight-line basis. The Company also leases some of its equipment under operating lease agreements expiring at various dates through September 2021.

Investment Commitments

As of October 29, 2016, the Company had an unfunded commitment to invest €5.0 million (\$5.5 million) in a private equity fund. The investment will be included in other assets in the Company's condensed consolidated balance sheet when it is funded.

Litigation

On May 6, 2009, Gucci America, Inc. filed a complaint in the U.S. District Court for the Southern District of New York against Guess?, Inc. and certain third party licensees for the Company asserting, among other things, trademark and trade dress law violations and unfair competition. The complaint sought injunctive relief, compensatory damages, including treble damages, and certain other relief. Complaints similar to those in the above action have also been filed by Gucci entities against the Company and certain of its subsidiaries in the Court of Milan, Italy, the Intermediate People's Court of Nanjing, China and the Court of Paris, France. The three-week bench trial in the U.S. matter concluded on April 19, 2012, with the court issuing a preliminary ruling on May 21, 2012 and a final ruling on July 19, 2012. Although the plaintiff was seeking compensation in the U.S. matter in the form of damages of \$26 million and an accounting of profits of \$99 million, the final ruling provided for monetary damages of \$2.3 million against the Company and \$2.3 million against certain of its licensees. The court also granted narrow injunctions in favor of the plaintiff for certain of the claimed infringements. On August 20, 2012, the appeal period expired without any party having filed an appeal, rendering the judgment final. On May 2, 2013, the Court of Milan ruled in favor of the Company in the Milan, Italy matter. In the ruling, the Court rejected all of the plaintiff's claims and ordered the cancellation of three of the plaintiff's Italian and four of the plaintiff's European Community trademark registrations. On June 10, 2013, the plaintiff appealed the Court's ruling in the Milan matter. On September 15, 2014, the Court of Appeal of Milan affirmed the majority of the lower Court's ruling in favor of the Company, but overturned the lower Court's finding with respect to an unfair competition claim. That portion of the matter is now in a damages phase based on the ruling. On October 16, 2015, the plaintiff appealed the remainder of the Court of Appeal of Milan's ruling in favor of the Company to the Italian Supreme Court of Cassation. In the China matter, the Intermediate People's Court of Nanjing, China issued a ruling on November 8, 2013 granting an injunction in favor of the plaintiff for certain of the claimed infringements on handbags and small leather goods and awarding the plaintiff statutory damages in the amount of approximately \$80,000. The Company strongly disagreed with the Court's decision and appealed the ruling. On August 31, 2016, the Court of Appeal for the China matter issued a decision in favor of the Company, rejecting all of the plaintiff's claims. On January 30, 2015, the Court of Paris ruled in favor of the Company in the France matter, rejecting all of the plaintiff's claims and partially canceling two of the plaintiff's community trademark registrations and one of the plaintiff's international trademark registrations. On February 17, 2015, the plaintiff appealed the Court of Paris' ruling.

On August 25, 2006, Franchez Isaguirre, a former employee of the Company, filed a complaint in the Superior Court of California, County of Los Angeles alleging violations by the Company of California wage and hour laws. The complaint was subsequently amended, adding a second former employee as an additional named party. The plaintiffs purport to represent a class of similarly situated employees in California who allegedly had been injured by not being provided adequate meal and rest breaks. The complaint seeks unspecified compensatory damages, statutory penalties, attorney's fees and injunctive and declaratory relief. On June 9, 2009, the Court certified the class but immediately stayed the case pending the resolution of a separate California Supreme Court case on the standards of class treatment for meal and rest break claims. Following the Supreme Court ruling, the Superior Court denied the Company's motions to decertify the class and to narrow the class in January 2013 and June 2013, respectively. The Company subsequently petitioned to have the Court's decision not to narrow the class definition reviewed. That petition was ultimately denied by the California Supreme Court in April 2014. In

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July 2015, the parties entered into a Memorandum of Understanding to settle the matter for \$5.25 million, subject to certain limited offsets. The Court issued a final order and judgment approving the settlement in February 2016. The Company has received customs tax assessment notices from the Italian Customs Agency regarding its customs tax audit of one of the Company's European subsidiaries for the period from July 2010 through December 2012. Such assessments totaled €9.8 million (\$10.8 million), including potential penalties and interest. The Company strongly disagrees with the positions that the Italian Customs Agency has taken and therefore filed appeals with the Milan First Degree Tax Court ("MFDTC"). In May 2015, the MFDTC issued a judgment in favor of the Company in relation to the first set of appeals (covering the period through September 2010) and canceled the related assessments totaling €1.7 million (\$1.8 million). In November 2015, the Italian Customs Agency notified the Company of its intent to appeal this first MFDTC judgment. In November 2016, the Appeals Court ruled in favor of the Company and rejected the appeal by the Italian Customs Agency on a portion of the first MFDTC judgment, with the remaining portion still to be determined. During the first nine months of fiscal 2017, the MFDTC issued judgments in favor of the Company in relation to the second through sixth set of appeals (covering the period from October 2010 through June 2012) as well as a portion of the seventh set of appeals (covering the period from August 2012 through December 2012) and canceled the related assessments totaling €7.9 million (\$8.7 million). Subsequently, the Italian Customs Agency has appealed all but one of these favorable MFDTC judgments. While these MFDTC judgments have been favorable to the Company, there can be no assurances that the Company's remaining open appeal for July 2012 will be successful. There also can be no assurances that the Italian Customs Agency will not be successful in its remaining appeals. It also continues to be possible that the Company will receive similar or even larger assessments for periods subsequent to December 2012 or other claims or charges related to the matter in the future.

Although the Company believes that it has a strong position and will continue to vigorously defend each of the remaining matters, it is unable to predict with certainty whether or not these efforts will ultimately be successful or whether the outcomes will have a material impact on the Company's financial position or results of operations. The Company is also involved in various other claims and other matters incidental to the Company's business, the resolutions of which are not expected to have a material adverse effect on the Company's financial position or results of operations.

(13) Defined Benefit Plans**Supplemental Executive Retirement Plan**

On August 23, 2005, the Board of Directors of the Company adopted a Supplemental Executive Retirement Plan ("SERP") which became effective January 1, 2006. The SERP provides select employees who satisfy certain eligibility requirements with certain benefits upon retirement, termination of employment, death, disability or a change in control of the Company, in certain prescribed circumstances.

In fiscal 2016, the SERP was amended in connection with Paul Marciano's transition from Chief Executive Officer to Executive Chairman of the Board and Chief Creative Officer. This amendment effectively eliminated any future salary progression by finalizing compensation levels for future benefits. Mr. Marciano will continue to be eligible to receive SERP benefits in the future in accordance with the amended terms of the SERP. Subsequent to this amendment, there are no employees considered actively participating under the terms of the SERP. As a result, the Company included an actuarial gain of \$11.4 million before taxes in accumulated other comprehensive income (loss) during fiscal 2016. In addition, the Company also recognized a curtailment gain of \$1.7 million before taxes related to the accelerated amortization of the remaining prior service credit during fiscal 2016. The actuarial and curtailment gains were recorded during the three months ended August 1, 2015.

As a non-qualified pension plan, no dedicated funding of the SERP is required; however, the Company has made periodic payments into insurance policies held in a rabbi trust to fund the expected obligations arising under the non-qualified SERP. The amount of any future payments into the insurance policies, if any, may vary depending on investment performance of the trust. The cash surrender values of the insurance policies were \$56.7 million and \$52.5 million as of October 29, 2016 and January 30, 2016, respectively, and were included in other assets in the Company's condensed consolidated balance sheets. As a result of changes in the value of the insurance

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policy investments, the Company recorded unrealized gains (losses) of \$(0.5) million and \$4.6 million in other income and expense during the three and nine months ended October 29, 2016, respectively, and unrealized gains (losses) of \$(0.8) million and \$0.8 million in other income and expense during the three and nine months ended October 31, 2015, respectively. The Company also recorded realized gains of \$0.1 million and \$0.7 million in other income resulting from payout on the insurance policies during the nine months ended October 29, 2016 and October 31, 2015, respectively. The realized gains were recorded during the three months ended April 30, 2016 and May 2, 2015. The projected benefit obligation was \$53.6 million and \$53.4 million as of October 29, 2016 and January 30, 2016, respectively, and was included in accrued expenses and other long-term liabilities in the Company's condensed consolidated balance sheets depending on the expected timing of payments. SERP benefit payments of \$0.4 million and \$1.3 million were made during the three and nine months ended October 29, 2016, respectively. SERP benefit payments of \$0.4 million and \$1.3 million were made during the three and nine months ended October 31, 2015, respectively.

The components of net periodic defined benefit pension cost for the three and nine months ended October 29, 2016 and October 31, 2015 related to the SERP are as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	Oct 29, 2016	Oct 31, 2015	Oct 29, 2016	Oct 31, 2015
Interest cost	\$ 460	\$ 498	\$1,380	\$1,489
Net amortization of unrecognized prior service credit	—	—	—	(97)
Net amortization of actuarial losses	39	11	116	729
Curtailement gain	—	—	—	—