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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 November 2, 2019

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**

(State or other jurisdiction of incorporation or organization)

**95-3679695**

(I.R.S. Employer Identification No.)

**1444 South Alameda Street**

**Los Angeles, California**

**90021**

(Address of principal executive offices and zip code)

**(213) 765-3100**

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$0.01 per share	GES	New York Stock Exchange

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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.

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 November 29, 2019, the registrant had 65,639,090 shares of Common Stock, \$.01 par value per share, outstanding.

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**GUESS?, INC.**  
**FORM 10-Q**  
**TABLE OF CONTENTS**

**PART I. FINANCIAL INFORMATION**

<a href="#">Item 1.</a>	<a href="#">Financial Statements (unaudited)</a>	<a href="#">1</a>
	<a href="#">Condensed Consolidated Balance Sheets as of November 2, 2019 and February 2, 2019</a>	<a href="#">1</a>
	<a href="#">Condensed Consolidated Statements of Income (Loss) — Three and Nine Months Ended November 2, 2019 and November 3, 2018</a>	<a href="#">2</a>
	<a href="#">Condensed Consolidated Statements of Comprehensive Income (Loss) — Three and Nine Months Ended November 2, 2019 and November 3, 2018</a>	<a href="#">3</a>
	<a href="#">Condensed Consolidated Statements of Cash Flows — Nine Months Ended November 2, 2019 and November 3, 2018</a>	<a href="#">4</a>
	<a href="#">Condensed Consolidated Statements of Stockholders' Equity — Three and Nine Months Ended November 2, 2019 and November 3, 2018</a>	<a href="#">5</a>
	<a href="#">Notes to Condensed Consolidated Financial Statements</a>	<a href="#">7</a>
<a href="#">Item 2.</a>	<a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	<a href="#">36</a>
<a href="#">Item 3.</a>	<a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	<a href="#">58</a>
<a href="#">Item 4.</a>	<a href="#">Controls and Procedures</a>	<a href="#">62</a>

**PART II. OTHER INFORMATION**

<a href="#">Item 1.</a>	<a href="#">Legal Proceedings</a>	<a href="#">62</a>
<a href="#">Item 1A.</a>	<a href="#">Risk Factors</a>	<a href="#">62</a>
<a href="#">Item 2.</a>	<a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	<a href="#">68</a>
<a href="#">Item 6.</a>	<a href="#">Exhibits</a>	<a href="#">69</a>

**PART I. FINANCIAL INFORMATION****ITEM 1. Financial Statements.**

**GUESS?, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share data)

	Nov 2, 2019 (unaudited)	Feb 2, 2019
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 110,095	\$ 210,460
Accounts receivable, net	300,197	321,995
Inventories	519,875	468,897
Other current assets	67,425	87,343
Total current assets	997,592	1,088,695
Property and equipment, net	298,036	315,558
Goodwill	36,386	37,072
Deferred tax assets	57,666	57,224
Restricted cash	522	535
Operating lease right-of-use assets	874,945	—
Other assets	125,753	150,121
	<u>\$ 2,390,900</u>	<u>\$ 1,649,205</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of borrowings and finance lease obligations	\$ 37,484	\$ 4,315
Accounts payable	253,593	286,657
Accrued expenses and other current liabilities	176,109	252,392
Current portion of operating lease liabilities	189,581	—
Total current liabilities	656,767	543,364
Convertible senior notes, net	244,696	—
Long-term debt and finance lease obligations, net	34,712	35,012
Deferred rent and lease incentives	—	84,893
Long-term operating lease liabilities	740,484	—
Other long-term liabilities	123,638	127,438
	1,800,297	790,707
Redeemable noncontrolling interests	4,843	4,853
Commitments and contingencies (Note 13)		
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 142,969,992 and 142,707,300 shares, outstanding 65,646,702 and 81,379,660 shares, as of November 2, 2019 and February 2, 2019, respectively	656	814
Paid-in capital	558,158	523,331
Retained earnings	1,058,568	1,077,747
Accumulated other comprehensive loss	(135,909)	(126,179)
Treasury stock, 77,323,290 and 61,327,640 shares as of November 2, 2019 and February 2, 2019, respectively	(914,413)	(638,486)
Guess?, Inc. stockholders' equity	567,060	837,227
Nonredeemable noncontrolling interests	18,700	16,418
Total stockholders' equity	585,760	853,645
	<u>\$ 2,390,900</u>	<u>\$ 1,649,205</u>

*See accompanying notes to condensed consolidated financial statements.*

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

	Three Months Ended		Nine Months Ended	
	Nov 2, 2019	Nov 3, 2018	Nov 2, 2019	Nov 3, 2018
Product sales	\$ 593,736	\$ 583,121	\$ 1,776,287	\$ 1,710,788
Net royalties	22,208	22,286	59,568	61,779
Net revenue	615,944	605,407	1,835,855	1,772,567
Cost of product sales	386,445	385,264	1,158,741	1,139,055
Gross profit	229,499	220,143	677,114	633,512
Selling, general and administrative expenses	205,003	197,943	627,823	600,731
European Commission fine	—	42,428	—	42,428
Asset impairment charges	1,847	1,277	5,126	5,017
Net gains on lease terminations	—	—	—	(152)
Earnings (loss) from operations	22,649	(21,505)	44,165	(14,512)
Other income (expense):				
Interest expense	(4,946)	(784)	(11,156)	(2,386)
Interest income	492	783	1,166	2,892
Other expense, net	(62)	(5,810)	(4,346)	(7,064)
	(4,516)	(5,811)	(14,336)	(6,558)
Earnings (loss) before income tax expense (benefit)	18,133	(27,316)	29,829	(21,070)
Income tax expense (benefit)	4,548	(14,500)	10,649	(13,001)
Net earnings (loss)	13,585	(12,816)	19,180	(8,069)
Net earnings attributable to noncontrolling interests	1,162	626	2,809	1,064
Net earnings (loss) attributable to Guess?, Inc.	\$ 12,423	\$ (13,442)	\$ 16,371	\$ (9,133)
<b>Net earnings (loss) per common share attributable to common stockholders (Note 3):</b>				
Basic	\$ 0.19	\$ (0.17)	\$ 0.22	\$ (0.12)
Diluted	\$ 0.18	\$ (0.17)	\$ 0.22	\$ (0.12)
<b>Weighted average common shares outstanding attributable to common stockholders (Note 3):</b>				
Basic	66,393	80,189	72,275	80,067
Diluted	67,314	80,189	73,211	80,067

*See accompanying notes to condensed consolidated financial statements.*

**GUESS?, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF**  
**COMPREHENSIVE INCOME (LOSS)**

(in thousands)  
(unaudited)

	Three Months Ended		Nine Months Ended	
	Nov 2, 2019	Nov 3, 2018	Nov 2, 2019	Nov 3, 2018
Net earnings (loss)	\$ 13,585	\$ (12,816)	\$ 19,180	\$ (8,069)
Other comprehensive income (loss) (“OCI”):				
Foreign currency translation adjustment				
Gains (losses) arising during the period	3,224	(11,745)	(14,136)	(59,270)
Derivative financial instruments designated as cash flow hedges				
Gains arising during the period	859	1,833	7,581	14,000
Less income tax effect	(83)	(237)	(963)	(1,825)
Reclassification to net earnings (loss) for (gains) losses realized	(2,854)	1,597	(4,931)	5,787
Less income tax effect	327	(178)	651	(720)
Defined benefit plans				
Foreign currency and other adjustments	14	42	(46)	345
Less income tax effect	(1)	(5)	4	(31)
Net actuarial loss amortization	112	150	334	453
Prior service credit amortization	(10)	(7)	(29)	(21)
Less income tax effect	(12)	(19)	(35)	(58)
Total comprehensive income (loss)	15,161	(21,385)	7,610	(49,409)
Less comprehensive income (loss) attributable to noncontrolling interests:				
Net earnings	1,162	626	2,809	1,064
Foreign currency translation adjustment	283	(1,181)	141	(994)
Amounts attributable to noncontrolling interests	1,445	(555)	2,950	70
Comprehensive income (loss) attributable to Guess?, Inc.	<u>\$ 13,716</u>	<u>\$ (20,830)</u>	<u>\$ 4,660</u>	<u>\$ (49,479)</u>

*See accompanying notes to condensed consolidated financial statements.*

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

	Nine Months Ended	
	Nov 2, 2019	Nov 3, 2018
<b>Cash flows from operating activities:</b>		
Net earnings (loss)	\$ 19,180	\$ (8,069)
Adjustments to reconcile net earnings (loss) to net cash used in operating activities:		
Depreciation and amortization	53,989	50,399
Amortization of debt discount	5,109	—
Amortization of debt issuance costs	663	—
Share-based compensation expense	14,639	12,534
Forward contract gains	(60)	(1,884)
Net loss on disposition of property and equipment and long-term assets	6,558	5,663
Other items, net	6,368	12,937
Changes in operating assets and liabilities:		
Accounts receivable	17,190	(6,065)
Inventories	(56,467)	(159,463)
Prepaid expenses and other assets	6,162	(28,398)
Operating lease assets and liabilities, net	3,350	—
Accounts payable and accrued expenses	(97,776)	87,857
Other long-term liabilities	(6,910)	(12,426)
Net cash used in operating activities	(28,005)	(46,915)
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(49,020)	(74,890)
Proceeds from sale of long-term assets	319	—
Changes in other assets	589	—
Acquisition of businesses, net of cash acquired	—	(6,404)
Net cash settlement of forward contracts	162	156
Purchases of investments	—	(2,093)
Net cash used in investing activities	(47,950)	(83,231)
<b>Cash flows from financing activities:</b>		
Proceeds from short-term borrowings	120,794	—
Repayments of short-term borrowings	(87,207)	—
Proceeds from issuance of convertible senior notes	300,000	—
Proceeds from issuance of warrants	28,080	—
Purchase of convertible note hedges	(60,990)	—
Convertible debt issuance costs	(5,101)	—
Repayment of finance lease obligations and borrowings	(2,595)	(1,469)
Dividends paid	(34,286)	(54,858)
Noncontrolling interest capital distribution	(668)	(3,069)
Issuance of common stock, net of tax withholdings on vesting of stock awards	846	4,737
Purchase of treasury stock	(280,564)	(23,620)
Net cash used in financing activities	(21,691)	(78,279)
Effect of exchange rates on cash, cash equivalents and restricted cash	(2,732)	(19,803)
Net change in cash, cash equivalents and restricted cash	(100,378)	(228,228)
Cash, cash equivalents and restricted cash at the beginning of the year	210,995	367,682
Cash, cash equivalents and restricted cash at the end of the period	\$ 110,617	\$ 139,454
<b>Supplemental cash flow data:</b>		
Interest paid	\$ 4,865	\$ 961
Income taxes paid, net of refunds	\$ 11,668	\$ 28,039
<b>Non-cash investing and financing activity:</b>		
Assets acquired under finance lease obligations	\$ 3,070	\$ 1,172
Sale of retail locations	\$ 5,102	\$ —

*See accompanying notes to condensed consolidated financial statements.*



**GUESS?, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(in thousands, except share data)

For the three and nine months ended November 2, 2019

	Guess?, Inc. Stockholders' Equity									
	Common Stock			Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Nonredeemable Noncontrolling Interests	Total
	Shares	Amount	Amount				Shares	Amount		
<b>Balance at February 2, 2019</b>	81,379,660	\$ 814	\$ 523,331	\$ 1,077,747	\$ (126,179)	61,327,640	\$ (638,486)	\$ 16,418	\$ 853,645	
Cumulative adjustment from adoption of new accounting guidance	—	—	—	(1,684)	1,981	—	—	—	297	
Net earnings (loss)	—	—	—	(21,374)	—	—	—	793	(20,581)	
Other comprehensive income (loss), net of income tax of (\$499)	—	—	—	—	(8,508)	—	—	310	(8,198)	
Issuance of common stock under stock compensation plans including tax effect	545,881	5	(3,042)	—	—	(211,221)	2,225	—	(812)	
Issuance of stock under Employee Stock Purchase Plan	11,377	1	69	—	—	(11,377)	120	—	190	
Share-based compensation	—	—	4,440	28	—	—	—	—	4,468	
Dividends	—	—	—	(18,331)	—	—	—	—	(18,331)	
Share repurchases	(10,264,052)	(103)	103	—	—	10,264,052	(201,564)	—	(201,564)	
Equity component value of convertible note issuance, net	—	—	42,324	—	—	—	—	—	42,324	
Sale of common stock warrant	—	—	28,080	—	—	—	—	—	28,080	
Purchase of convertible note hedge	—	—	(46,440)	—	—	—	—	—	(46,440)	
Equity forward contract issuance	—	—	(68,000)	—	—	—	—	—	(68,000)	
<b>Balance at May 4, 2019</b>	71,672,866	\$ 717	\$ 480,865	\$ 1,036,386	\$ (132,706)	71,369,094	\$ (837,705)	\$ 17,521	\$ 565,078	
Net earnings	—	—	—	25,322	—	—	—	854	26,176	
Other comprehensive loss, net of income tax of (\$75)	—	—	—	—	(4,496)	—	—	(452)	(4,948)	
Issuance of common stock under stock compensation plans including tax effect	64,080	—	(852)	—	—	(106,039)	1,249	—	397	
Issuance of stock under Employee Stock Purchase Plan	19,538	—	38	—	—	(19,538)	230	—	268	
Share-based compensation	—	—	4,928	58	—	—	—	—	4,986	
Dividends	—	—	—	(8,162)	—	—	—	—	(8,162)	
Share repurchases	(749,252)	(7)	7	—	—	749,252	(11,000)	—	(11,000)	
<b>Balance at August 3, 2019</b>	71,007,232	\$ 710	\$ 484,986	\$ 1,053,604	\$ (137,202)	71,992,769	\$ (847,226)	\$ 17,923	\$ 572,795	
Net earnings	—	—	—	12,423	—	—	—	1,162	13,585	
Other comprehensive income, net of income tax of \$231	—	—	—	—	1,293	—	—	283	1,576	
Issuance of common stock under stock compensation plans including tax effect	24,491	—	(36)	—	—	(54,500)	644	—	608	
Issuance of stock under Employee Stock Purchase Plan	14,284	—	26	—	—	(14,284)	169	—	195	
Share-based compensation	—	—	5,128	57	—	—	—	—	5,185	
Dividends	—	—	—	(7,516)	—	—	—	—	(7,516)	
Share repurchases	(5,399,305)	(54)	54	—	—	5,399,305	(68,000)	—	(68,000)	
Noncontrolling interest capital distribution	—	—	—	—	—	—	—	(668)	(668)	
Equity forward contract settlement	—	—	68,000	—	—	—	—	—	68,000	
<b>Balance at November 2, 2019</b>	65,646,702	\$ 656	\$ 558,158	\$ 1,058,568	\$ (135,909)	77,323,290	\$ (914,413)	\$ 18,700	\$ 585,760	



**GUESS?, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(in thousands, except share data)

For the three and nine months ended November 3, 2018

	Guess?, Inc. Stockholders' Equity									
	Common Stock			Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Nonredeemable Noncontrolling Interests	Total
	Shares	Amount	Amount				Shares	Amount		
<b>Balance at February 3, 2018</b>	81,371,118	\$ 813	\$ 498,249	\$ 1,132,173	\$ (93,062)	60,252,569	\$ (621,354)	\$ 16,656	\$ 933,475	
Cumulative adjustment from adoption of new accounting guidance	—	—	—	5,829	—	—	—	—	5,829	
Net earnings (loss)	—	—	—	(21,221)	—	—	—	234	(20,987)	
Other comprehensive loss, net of income tax of (\$1,339)	—	—	—	—	(15,728)	—	—	(324)	(16,052)	
Issuance of common stock under stock compensation plans including tax effect	689,341	8	3,882	—	—	—	—	—	3,890	
Issuance of stock under Employee Stock Purchase Plan	15,313	—	71	—	—	(15,313)	159	—	230	
Share-based compensation	—	—	3,949	9	—	—	—	—	3,958	
Dividends	—	—	—	(18,499)	—	—	—	—	(18,499)	
Share repurchases	(1,118,808)	(11)	11	—	—	1,118,808	(17,587)	—	(17,587)	
<b>Balance at May 5, 2018</b>	80,956,964	\$ 810	\$ 506,162	\$ 1,098,291	\$ (108,790)	61,356,064	\$ (638,782)	\$ 16,566	\$ 874,257	
Net earnings	—	—	—	25,530	—	—	—	204	25,734	
Other comprehensive income (loss), net of income tax of (\$856)	—	—	—	—	(17,230)	—	—	511	(16,719)	
Issuance of common stock under stock compensation plans including tax effect	60,008	—	279	—	—	—	—	—	279	
Issuance of stock under Employee Stock Purchase Plan	13,230	—	97	—	—	(13,230)	138	—	235	
Share-based compensation	—	—	4,012	19	—	—	—	—	4,031	
Dividends	—	—	—	(18,667)	—	—	—	—	(18,667)	
Noncontrolling interest capital distribution	—	—	—	—	—	—	—	(3,069)	(3,069)	
<b>Balance at August 4, 2018</b>	81,030,202	\$ 810	\$ 510,550	\$ 1,105,173	\$ (126,020)	61,342,834	\$ (638,644)	\$ 14,212	\$ 866,081	
Net earnings (loss)	—	—	—	(13,442)	—	—	—	626	(12,816)	
Other comprehensive loss, net of income tax of (\$439)	—	—	—	—	(7,388)	—	—	(1,181)	(8,569)	
Issuance of common stock under stock compensation plans including tax effect	(30,766)	—	(45)	—	—	—	—	—	(45)	
Issuance of stock under Employee Stock Purchase Plan	8,089	—	63	—	—	(8,089)	85	—	148	
Share-based compensation	—	—	4,499	46	—	—	—	—	4,545	
Dividends	—	—	—	(18,789)	—	—	—	—	(18,789)	
<b>Balance at November 3, 2018</b>	81,007,525	\$ 810	\$ 515,067	\$ 1,072,988	\$ (133,408)	61,334,745	\$ (638,559)	\$ 13,657	\$ 830,555	

*See accompanying notes to condensed consolidated financial statements.*

**GUESS?, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**November 2, 2019**  
(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 November 2, 2019 and February 2, 2019, the condensed consolidated statements of income (loss), comprehensive income (loss) and stockholders’ equity for the three and nine months ended November 2, 2019 and November 3, 2018 and the condensed consolidated statements of cash flows for the nine months ended November 2, 2019 and November 3, 2018. 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 (the “SEC”). 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 November 2, 2019 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 2, 2019.

The three and nine months ended November 2, 2019 had the same number of days as the three and nine months ended November 3, 2018. All references herein to “fiscal 2020,” “fiscal 2019” and “fiscal 2018” represent the results of the 52-week fiscal year ending February 1, 2020, the 52-week fiscal year ended February 2, 2019 and the 53-week fiscal year ended February 3, 2018, respectively.

*Reclassifications*

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

*Revenue Recognition*

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.

The Company also recognizes royalty revenue from its trademark license agreements. 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 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. 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 November 2, 2019, the Company had \$6.7 million and \$11.1 million of deferred royalties

related to these upfront payments included in accrued expenses and other long-term liabilities, respectively. This compares to \$6.4 million and \$15.5 million of deferred royalties related to these upfront payments included in accrued expenses and other long-term liabilities, respectively, at February 2, 2019. During the three and nine months ended November 2, 2019, the Company recognized \$3.1 million and \$9.2 million in net royalties related to the amortization of the deferred royalties, respectively. During the three and nine months ended November 3, 2018, the Company recognized \$3.6 million and \$10.5 million in net royalties related to the amortization of the deferred royalties, respectively.

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

#### *Other Assets*

During fiscal 2019, the Company invested \$8.3 million in a privately-held apparel company and holds a 30% minority interest. The Company's ownership in this company is accounted for under the equity method of accounting. The Company recognized its proportionate share of net losses of \$3.9 million and \$6.8 million in other expense in its condensed consolidated statements of income (loss) during the three and nine months ended November 2, 2019.

#### *Sale of Australian Stores*

During the second quarter of fiscal 2020, the Company entered into a definitive agreement to sell its Australian retail locations to the Company's wholesale distributor in the region for approximately AUD\$7.1 million (US\$4.9 million), subject to certain adjustments, and recognized a loss on the sale of approximately AUD\$1.2 million (US\$0.8 million). As per the terms of the agreement, the wholesale distributor entered into a promissory note with the Company to make periodic payments on the sale through August 2021. As of November 2, 2019, the Company included AUD\$1.8 million (US\$1.3 million) and AUD\$5.3 million (US\$3.6 million) in accounts receivable, net and other assets, respectively, in its condensed consolidated balance sheet based on the timing of the payments.

#### *European Commission Fine*

During the quarter ended November 3, 2018, the Company recognized charges of €37.0 million (\$42.4 million) related to an estimated fine imposed on the Company by the European Commission related to its inquiry concerning possible violations of certain European Union competition rules by the Company. In December of fiscal 2019, the European Commission concluded its investigation and imposed a cumulative fine of €39.8 million (\$45.6 million), which the Company paid in the first quarter of fiscal 2020.

#### *New Accounting Guidance*

##### *Changes in Accounting Policies*

In February 2016, the FASB issued a comprehensive new lease standard which superseded previous lease guidance. The standard requires a lessee to recognize an asset related to the right to use the underlying asset and a liability that approximates the present value of the lease payments over the term of contracts that qualify as leases under the new guidance. The standard also requires expanded disclosures surrounding leases. The Company adopted this guidance as of February 3, 2019 using the modified retrospective approach and recorded a cumulative adjustment to increase retained earnings by approximately \$0.3 million, net of taxes, with no restatement of prior periods. In addition, the Company elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allows the Company to carry forward historical lease classification. As of the adoption date, the Company recorded operating lease right-of-use ("ROU") assets and operating lease liabilities of approximately \$1.0 billion. The standard did not materially impact the Company's condensed consolidated statements of income or cash flows. Refer to Note 2 for the Company's expanded disclosures on leases.

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 eliminated the requirement to separately measure and report ineffectiveness for instruments that qualify for hedge accounting and generally requires that the entire change in the fair value of such instruments ultimately be presented in the same line as the respective hedge item. As a

result, there is no interest component recognized for the ineffective portion of instruments that qualify for hedge accounting, but rather all changes in the fair value of such instruments are included in other comprehensive income (loss). The guidance also reduced the overall complexity of the hedge accounting model, including broadening the scope of risks eligible to qualify for hedge accounting, easing documentation and effectiveness assessment requirements, modifying the treatment of components excluded from the assessment of hedge effectiveness and updating disclosure requirements. In October 2018, the FASB clarified the new hedge accounting guidance by allowing the Secured Overnight Financing Rate to be eligible as a U.S. benchmark interest rate for purposes of applying hedge accounting. The Company adopted this guidance as of February 3, 2019. The adoption of this guidance resulted in a decrease in retained earnings and a decrease in accumulated other comprehensive loss of approximately \$2.0 million. Approximately \$1.4 million of this gain will be recognized in cost of product sales during fiscal 2020, on a pre-tax basis.

#### *Recently Issued Accounting Guidance*

In June 2016, the FASB issued authoritative guidance related to the measurement of credit losses on financial instruments. This guidance replaces the current “as incurred” loss model with an “expected loss” model which requires the recognition of an allowance for credit losses expected to be incurred over an asset’s lifetime. The measurement of expected credit losses is based on relevant information about past events, current conditions, reasonable and supportable forecasts impacting the collectibility of the reported amounts. 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 was the Company’s first quarter of fiscal 2020. The standard will require entities to record a cumulative-effect adjustment to the balance sheet as of the beginning of the first reporting period in which the guidance is effective. Although the Company is in the process of finalizing its evaluation of this guidance, the Company does not expect that the adoption of this guidance will have a material impact on the Company’s condensed consolidated financial statements other than requiring enhanced 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 condensed consolidated financial statements or related disclosures.

In August 2018, the FASB issued authoritative guidance to modify the disclosure requirements on fair value measurements. 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. The adoption of this guidance is not expected to have a material impact on the Company’s related disclosures.

In August 2018, the FASB issued authoritative guidance to modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This guidance is effective for fiscal years beginning after December 15, 2020, which will be the Company’s first quarter of fiscal 2022, with early adoption permitted. The Company is currently evaluating the impact of the adoption of this standard on its related disclosures.

In August 2018, the FASB issued authoritative guidance to align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The guidance provides criteria for determining which implementation costs to capitalize as an asset related to the service contract and which costs to expense. The capitalized implementation costs are required to be expensed over the term of the hosting arrangement. The guidance also clarifies the presentation requirements for reporting such costs in the entity's financial statements. 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. Although the impact from the adoption of this guidance will depend on the composition of the Company's cloud computing arrangements in place at that time, the adoption of this guidance is currently not expected to have a material impact on the Company's condensed consolidated financial statements other than the reclassification of implementation costs in the Company's condensed consolidated balance sheet and requiring enhanced disclosures.

## **(2) Lease Accounting**

The Company primarily 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 January 2039. The Company also leases some of its equipment as well as computer hardware and software under operating and finance lease agreements expiring on various dates through May 2027.

The Company determines whether an arrangement is a lease at inception of the agreement and reassesses that conclusion if the agreement is modified. The term of the Company's leases represents the non-cancelable period of the lease, including any rent-free periods and any options to renew, extend or terminate the lease that the Company is reasonably certain to exercise. The Company determines the term of each lease at lease commencement and revisits that term in subsequent periods if a triggering event occurs which would require reassessment.

Leases with an initial contractual term in excess of 12 months are accounted for as either an operating or finance lease based on certain criteria. Under this new guidance, leases the Company previously referred to as "capital leases" are now referred to as "finance leases." In connection with the adoption of the new lease standard, the Company elected to apply the group of practical expedients which allows the Company to carry forward its identification of existing contracts that are or contain leases, its historical lease classification and its initial direct costs for existing leases. The Company has also elected to recognize leases with an initial term of 12 months or less on a straight-line basis without recognizing a ROU asset or operating lease liability.

The Company's lease agreements primarily provide for lease payments based on a minimum annual rental amount, a percentage of annual sales volume, periodic adjustments related to inflation or a combination of such lease payments. Certain retail store leases provide for rents based upon the minimum annual rental amount and a percentage of annual sales volume, generally ranging from 3% to 23%, when specific sales volumes are exceeded. The Company's retail concession leases also provide for rents primarily based upon a percentage of annual sales volume which average approximately 35% of annual sales volume. Some of these leases require the Company to make periodic payments for insurance, property taxes, sales promotion and common area maintenance charges. The Company has elected the practical expedient to not separate non-lease components from lease components in the measurement of liabilities for its directly-operated real estate leases. Lease liabilities are recognized at the present value of the fixed lease payments, reduced by landlord incentives using a discount rate based on similarly secured borrowings available to the Company. Lease ROU assets are recognized based on the initial present value of the fixed lease payments, reduced by landlord incentives, plus any direct costs from executing the leases. Variable lease payments are expensed as incurred and do not factor into the measurement of the applicable lease liability or lease ROU asset. Lease ROU assets are amortized over the life of the lease and tested for impairment in the same manner as long-lived assets used in operations. Leasehold improvements are capitalized at cost and amortized over the lesser of their expected useful life or the lease term.

The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants. In addition to the amounts as disclosed below, the Company has estimated additional operating lease commitments of approximately \$8.5 million for leases where the Company has not yet taken possession of the underlying asset as of November 2, 2019. As such, the related operating lease ROU assets and operating lease liabilities have not been recognized in the Company's condensed consolidated balance sheet as of November 2, 2019.

As of November 2, 2019, the components of leases and lease costs are as follows (in thousands):

	<b>Balance Sheet Location</b>	<b>Nov 2, 2019</b>	
<b>Assets</b>			
Operating	Operating lease right-of-use assets	\$	874,945
Finance	Property and equipment, net		16,780
Total lease assets		\$	891,725
<b>Liabilities</b>			
<b>Current:</b>			
Operating	Current portion of operating lease liabilities	\$	189,581
Finance	Current portion of borrowings and finance lease obligations		2,239
<b>Noncurrent:</b>			
Operating	Long-term operating lease liabilities		740,484
Finance	Long-term debt and finance lease obligations, net		15,008
Total lease liabilities		\$	947,312

	<b>Income Statement Location</b>	<b>Three Months Ended Nov 2, 2019</b>	<b>Nine Months Ended Nov 2, 2019</b>
Operating lease costs <sup>1</sup>	Cost of product sales	\$ 56,370	\$ 173,935
Operating lease costs <sup>1</sup>	Selling, general and administrative expenses	6,746	17,730
<b>Finance lease costs</b>			
Amortization of leased assets <sup>2</sup>	Cost of product sales	2,025	2,112
Amortization of leased assets <sup>2</sup>	Selling, general and administrative expenses	1,681	2,861
Interest on lease liabilities	Interest expense	165	738
Variable lease costs <sup>1</sup>	Cost of product sales	24,592	74,500
Variable lease costs <sup>1</sup>	Selling, general and administrative expenses	677	2,132
Short-term lease costs <sup>1</sup>	Selling, general and administrative expenses	208	603
Total lease costs		\$ 92,464	\$ 274,611

**Notes:**

<sup>1</sup> Rental expense for all property and equipment operating leases during the three and nine months ended November 3, 2018 aggregated to \$81.1 million and \$223.9 million, respectively, including percentage rent of \$15.0 million and \$46.9 million, respectively. During the three and nine months ended November 3, 2018, the Company also recognized insurance, taxes, sales promotion and common area maintenance charges totaling \$7.2 million and \$38.5 million, respectively, related to its operating leases.

<sup>2</sup> Amortization of leased assets related to finance leases are included in depreciation expense within cost of product sales or selling, general and administrative expenses depending on the nature of the asset in the Company's condensed consolidated statements of income (loss).

Maturities of the Company's operating and finance lease liabilities as of November 2, 2019 are as follows (in thousands):

Maturity of Lease Liabilities	Operating Leases	Finance Leases	Total
2020 <sup>1</sup>	\$ 67,971	\$ 931	\$ 68,902
2021	205,261	3,362	208,623
2022	193,428	3,666	197,094
2023	161,815	3,263	165,078
2024	135,574	3,108	138,682
After 2024	266,568	7,279	273,847
Total lease payments	1,030,617	21,609	1,052,226
Less: Interest	100,552	4,362	104,914
Present value of lease liabilities	<u>\$ 930,065</u>	<u>\$ 17,247</u>	<u>\$ 947,312</u>

Notes:

<sup>1</sup> Represents the maturity of lease liabilities for the remainder of fiscal 2020 and does not include payments made during the nine months ended November 2, 2019.

Other supplemental information as of November 2, 2019 is as follows (dollars in thousands):

Lease Term and Discount Rate	Nov 2, 2019
Weighted-average remaining lease term (years)	
Operating leases	5.9 years
Finance leases	6.6 years
Weighted-average discount rate	
Operating leases	3.5%
Finance leases	7.1%
<b>Supplemental Cash Flow Information</b>	<b>Nine Months Ended Nov 2, 2019</b>
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	\$ 187,523
New operating ROU assets obtained in exchange for lease liabilities	\$ 118,486

### (3) Earnings (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 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, and the dilutive impact of the Company's convertible senior notes and related warrants, as applicable.

The Company expects to settle the principal amount of its outstanding convertible senior notes in cash and any excess in shares. As a result, upon conversion of the convertible senior notes, only the amounts in excess of the principal amount are considered in diluted earnings per share under the treasury stock method, if applicable. See Note 10 for more information regarding the Company's convertible senior notes.

In periods when there is a net loss, 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. 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 was 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 (loss) per common share attributable to common stockholders is as follows (in thousands, except per share data):

	Three Months Ended		Nine Months Ended	
	Nov 2, 2019	Nov 3, 2018	Nov 2, 2019	Nov 3, 2018
Net earnings (loss) attributable to Guess?, Inc.	\$ 12,423	\$ (13,442)	\$ 16,371	\$ (9,133)
Less net earnings attributable to nonvested restricted stockholders	118	187	306	577
Net earnings (loss) attributable to common stockholders	\$ 12,305	\$ (13,629)	\$ 16,065	\$ (9,710)
Weighted average common shares used in basic computations	66,393	80,189	72,275	80,067
Effect of dilutive securities:				
Stock options and restricted stock units <sup>1</sup>	921	—	936	—
Weighted average common shares used in diluted computations	67,314	80,189	73,211	80,067
Net earnings (loss) per common share attributable to common stockholders:				
Basic	\$ 0.19	\$ (0.17)	\$ 0.22	\$ (0.12)
Diluted	\$ 0.18	\$ (0.17)	\$ 0.22	\$ (0.12)

*Notes:*

<sup>1</sup> For the three and nine months ended November 3, 2018, there were 1,499,247 and 1,312,054, 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 November 2, 2019 and November 3, 2018, equity awards granted for 3,277,923 and 1,310,933, respectively, of the Company's common shares and for the nine months ended November 2, 2019 and November 3, 2018, equity awards granted for 3,067,758 and 1,610,091, 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 November 2, 2019, the Company also excluded 1,182,805 nonvested stock units which are subject to the achievement of performance-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 November 2, 2019. For the three and nine months ended November 3, 2018, the Company excluded 1,336,679 nonvested stock units which were subject to the achievement of performance-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 November 3, 2018.



The conversion spread on the Company's convertible senior notes will have a dilutive impact on diluted earnings per share when the average market price of the Company's common stock for a given period exceeds the conversion price of \$25.78 per share of common stock. For the three and nine months ended November 2, 2019, the convertible senior notes have been excluded from the computation of diluted earnings per share as the effect would be antidilutive since the conversion price of the convertible senior notes exceeded the average market price of the Company's common stock. Warrants to purchase 11.6 million shares of the Company's common shares at \$46.88 per share were outstanding as of November 2, 2019 but were excluded from the computation of diluted earnings per share since the warrants' strike price was greater than the average market price of the Company's common stock during the period. See Note 10 for more information regarding the Company's convertible senior notes.

#### **(4) Stockholders' Equity**

##### *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 nine months ended November 2, 2019, the Company repurchased 16,412,609 shares under the program at an aggregate cost of \$280.5 million, which is inclusive of the shares repurchased under the accelerated share repurchase agreement (the "ASR Contract") as described below. The Company repurchased 10,264,052 shares at an aggregate cost of \$201.5 million during the three months ended May 4, 2019, 749,252 shares at an aggregate cost of \$11.0 million during the three months ended August 3, 2019 and an additional 5,399,305 shares at an aggregate cost of \$68.0 million during the three months ended November 2, 2019. During the nine months ended November 3, 2018, the Company repurchased 1,118,808 shares under the program at an aggregate cost of \$17.6 million. The shares were repurchased 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. As of November 2, 2019, the Company had remaining authority under the program to purchase \$94.1 million of its common stock.

On April 26, 2019, pursuant to existing stock repurchase authorizations, the Company entered into an ASR Contract with JPMorgan Chase Bank, National Association (in such capacity, the "ASR Counterparty"), to repurchase an aggregate of \$170 million of the Company's common stock. Under the ASR Contract, the Company made an initial payment of \$170 million to the ASR Counterparty and received an initial delivery of approximately 5.2 million shares of common stock, which represented approximately \$102 million (or 60%) of the ASR Contract. The Company received a final delivery of an additional 5.4 million shares, or \$68 million, under its ASR Contract on September 4, 2019. The final share amount was determined based on the daily volume-weighted average price since the effective date of the ASR Contract, less the applicable contractual discount. When combined with the 5.2 million upfront shares received at the inception of the ASR in April 2019, the Company repurchased approximately 10.6 million of its shares under the ASR at an average repurchase price of \$16.09 per share. All shares were repurchased in accordance with the Company's publicly announced ASR program, which is now complete. The shares delivered under the ASR Contract reduced the Company's outstanding shares and its weighted average number of common shares outstanding for purposes of calculating basic and diluted earnings per share.

### Dividends

The following table sets forth the cash dividend declared per share for the three and nine months ended November 2, 2019 and November 3, 2018:

	Three Months Ended		Nine Months Ended	
	Nov 2, 2019	Nov 3, 2018	Nov 2, 2019	Nov 3, 2018
Cash dividend declared per share	\$ 0.1125	\$ 0.2250	\$ 0.4500	\$ 0.6750

During the first quarter of fiscal 2020, the Company announced that its Board of Directors reduced the future quarterly cash dividends that may be paid to holders of the Company's common stock, when, as and if any such dividend is declared by the Company's Board of Directors, from \$0.225 per share to \$0.1125 per share to redeploy capital and return incremental value to shareholders through share repurchases. Decisions on whether, when and in what amounts to continue making any future dividend distributions will remain at all times entirely at the discretion of the Company's Board of Directors, which reserves the right to change or terminate the Company's dividend practices at any time and for any reason without prior notice. The payment of cash dividends in the future will be based upon a number of business, legal and other considerations, including our cash flow from operations, capital expenditures, debt service and covenant requirements, cash paid for income taxes, earnings, share repurchases, economic conditions and U.S. and global liquidity.

### 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 November 2, 2019 and November 3, 2018 are as follows (in thousands):

	Three Months Ended Nov 2, 2019			
	Foreign Currency Translation Adjustment	Derivative Financial Instruments Designated as Cash Flow Hedges	Defined Benefit Plans	Total
Balance at August 3, 2019	\$ (136,764)	\$ 9,069	\$ (9,507)	\$ (137,202)
Gains arising during the period	2,941	776	13	3,730
Reclassification to net earnings for (gains) losses realized	—	(2,527)	90	(2,437)
Net other comprehensive income (loss)	2,941	(1,751)	103	1,293
Balance at November 2, 2019	\$ (133,823)	\$ 7,318	\$ (9,404)	\$ (135,909)

**Nine Months Ended Nov 2, 2019**

	<b>Foreign Currency Translation Adjustment</b>	<b>Derivative Financial Instruments Designated as Cash Flow Hedges</b>	<b>Defined Benefit Plans</b>	<b>Total</b>
Balance at February 2, 2019	\$ (119,546)	\$ 2,999	\$ (9,632)	\$ (126,179)
Cumulative adjustment reclassified from retained earnings due to adoption of new accounting guidance <sup>1</sup>	—	1,981	—	1,981
Gains (losses) arising during the period	(14,277)	6,618	(42)	(7,701)
Reclassification to net earnings for (gains) losses realized	—	(4,280)	270	(4,010)
Net other comprehensive income (loss)	(14,277)	2,338	228	(11,711)
Balance at November 2, 2019	\$ (133,823)	\$ 7,318	\$ (9,404)	\$ (135,909)

**Notes:**

- <sup>1</sup> During the first quarter of fiscal 2020, the Company adopted new authoritative guidance which eliminated the requirement to separately measure and report ineffectiveness for instruments that qualify for hedge accounting and generally requires that the entire change in the fair value of such instruments ultimately be presented in the same line as the respective hedge item. As a result, there is no interest component recognized for the ineffective portion of instruments that qualify for hedge accounting, but rather all changes in the fair value of such instruments are included in other comprehensive income (loss) during the three and nine months ended November 2, 2019. Upon adoption of this guidance, the Company reclassified approximately \$2.0 million in gains from retained earnings to accumulated other comprehensive loss related to the previously recorded interest component on outstanding instruments that qualified for hedge accounting.

**Three Months Ended Nov 3, 2018**

	<b>Foreign Currency Translation Adjustment</b>	<b>Derivative Financial Instruments Designated as Cash Flow Hedges</b>	<b>Defined Benefit Plans</b>	<b>Total</b>
Balance at August 4, 2018	\$ (114,761)	\$ (142)	\$ (11,117)	\$ (126,020)
Gains (losses) arising during the period	(10,564)	1,596	37	(8,931)
Reclassification to net loss for losses realized	—	1,419	124	1,543
Net other comprehensive income (loss)	(10,564)	3,015	161	(7,388)
Balance at November 3, 2018	\$ (125,325)	\$ 2,873	\$ (10,956)	\$ (133,408)

**Nine Months Ended Nov 3, 2018**

	<b>Foreign Currency Translation Adjustment</b>	<b>Derivative Financial Instruments Designated as Cash Flow Hedges</b>	<b>Defined Benefit Plans</b>	<b>Total</b>
Balance at February 3, 2018	\$ (67,049)	\$ (14,369)	\$ (11,644)	\$ (93,062)
Gains (losses) arising during the period	(58,276)	12,175	314	(45,787)
Reclassification to net loss for losses realized	—	5,067	374	5,441
Net other comprehensive income (loss)	(58,276)	17,242	688	(40,346)
Balance at November 3, 2018	\$ (125,325)	\$ 2,873	\$ (10,956)	\$ (133,408)

Details on reclassifications out of accumulated other comprehensive income (loss) to net earnings (loss) during the three and nine months ended November 2, 2019 and November 3, 2018 are as follows (in thousands):

	Three Months Ended		Nine Months Ended		Location of (Gain) Loss Reclassified from Accumulated OCI into Earnings (Loss)
	Nov 2, 2019	Nov 3, 2018	Nov 2, 2019	Nov 3, 2018	
Derivative financial instruments designated as cash flow hedges:					
Foreign exchange currency contracts	\$ (2,826)	\$ 1,618	\$ (4,813)	\$ 5,646	Cost of product sales
Foreign exchange currency contracts	—	—	—	201	Other income (expense)
Interest rate swap	(28)	(21)	(118)	(60)	Interest expense
Less income tax effect	327	(178)	651	(720)	Income tax expense (benefit)
	<u>(2,527)</u>	<u>1,419</u>	<u>(4,280)</u>	<u>5,067</u>	
Defined benefit plans:					
Net actuarial loss amortization	112	150	334	453	Other income (expense)
Prior service credit amortization	(10)	(7)	(29)	(21)	Other income (expense)
Less income tax effect	(12)	(19)	(35)	(58)	Income tax expense (benefit)
	<u>90</u>	<u>124</u>	<u>270</u>	<u>374</u>	
Total reclassifications during the period	<u>\$ (2,437)</u>	<u>\$ 1,543</u>	<u>\$ (4,010)</u>	<u>\$ 5,441</u>	

## (5) Accounts Receivable

Accounts receivable is summarized as follows (in thousands):

	Nov 2, 2019	Feb 2, 2019
Trade	\$ 283,915	\$ 314,651
Royalty	9,022	5,992
Other	16,002	9,892
	<u>308,939</u>	<u>330,535</u>
Less allowances	8,742	8,540
	<u>\$ 300,197</u>	<u>\$ 321,995</u>

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.

## (6) Inventories

Inventories consist of the following (in thousands):

	Nov 2, 2019	Feb 2, 2019
Raw materials	\$ 510	\$ 881
Work in progress	58	162
Finished goods	519,307	467,854
	<u>\$ 519,875</u>	<u>\$ 468,897</u>

The above balances include an allowance to write down inventories to the lower of cost or net realizable value of \$25.7 million and \$30.9 million as of November 2, 2019 and February 2, 2019, respectively.

## (7) Income Taxes

Income tax expense for the interim periods was computed using the tax rate estimated to be applicable for the full fiscal year, adjusted for discrete items. The Company's effective income tax rate was 35.7% for the nine months ended November 2, 2019, compared to 61.7% for the nine months ended November 3, 2018. The change

in the effective income tax rate during the nine months ended November 2, 2019 was due primarily to the revision of provisional amounts recorded related to the impact of the 2017 Tax Cuts and Jobs Act in the U.S. (referred to herein as the “Tax Reform”) during the nine months ended November 3, 2018 as discussed further below, partially offset by a shift in the distribution of earnings among the Company’s tax jurisdictions within the quarters of the current fiscal year.

In December 2017, the U.S. government enacted the Tax Reform, which significantly changed the U.S. corporate income tax laws, including lowering the U.S. federal corporate income tax rate from 35% to 21% and requiring a one-time mandatory transition tax on accumulated foreign earnings. The Tax Reform also established new tax laws that were effective for calendar 2018, including but not limited to (i) a new provision designed to tax global intangible low-taxed income (“GILTI”), (ii) a general elimination of U.S. federal income taxes on dividends from foreign subsidiaries, (iii) a limitation on deductible interest expense and (iv) limitations on the deductibility of certain executive compensation. Any income tax payable related to the transition tax is due over an eight-year period beginning in calendar 2018. Based on the Company’s interpretation of the Tax Reform, reasonable estimates were made to record provisional adjustments during the fourth quarter of fiscal 2018. During the third quarter of fiscal 2019, the Company completed the preparation of its U.S. federal tax return for fiscal 2018 and concluded, based on the additional information that had become available, that no transition tax was due with respect to the Tax Reform. As a result, during the third quarter of fiscal 2019, the Company reversed a portion of provisional amounts initially recorded during the three months ended February 3, 2018 and recorded a benefit of \$19.6 million. On November 28, 2018, the U.S. Internal Revenue Service (“IRS”) announced a proposed regulation to revise the section of the underlying IRS code which gave rise to the Company’s change in the provisional calculation. As a result, during the fourth quarter of fiscal 2019, the Company determined that in the event such proposed legislation is passed in the future, the Company could have tax liabilities of approximately \$25.8 million. Therefore, the Company accrued such amount in the fourth quarter of fiscal 2019. During the second quarter of fiscal 2020, the Company revised its tax liability estimation and related accrual to \$23.2 million. The balance related to this transition tax included in other long-term liabilities was \$23.2 million and \$25.8 million as of November 2, 2019 and February 2, 2019, respectively.

From time-to-time, the Company is subject to routine income and other tax audits on various tax matters around the world in the ordinary course of business. As of November 2, 2019, several tax audits were ongoing for various periods in multiple jurisdictions. These audits could conclude with an assessment of additional tax liability for the Company. These assessments could arise as the result of timing or permanent differences and could be material to the Company’s net income or future cash flows. In the event the Company disagrees with an assessment from a taxing authority, the Company may elect to appeal, litigate, pursue settlement or take other actions. The Company accrues an amount for its estimate of additional tax liability which the Company, more likely than not, will incur as a result of the ultimate resolution of tax audits (“uncertain tax positions”). The Company reviews and updates the estimates used in the accrual for uncertain tax positions, as appropriate, as more definitive information or interpretations become available from taxing authorities, upon completion of tax audits, upon receipt of assessments, 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 \$41.1 million and \$41.4 million as of November 2, 2019 and February 2, 2019, respectively.

In connection with an income tax audit in Italy, the Italian tax authority has indicated that it believes that certain dividend distributions made in fiscal 2015 and fiscal 2016 from the Company’s Italian subsidiaries to their European parent holding company should be subject to certain withholding taxes in Italy. The Company strongly disagrees with the Italian tax authority’s position, which it believes is inconsistent with the European Union directive governing parent and subsidiary dividend transactions. Although the Company believes that it has a strong position and is prepared to vigorously defend this matter, it is unable to predict with certainty whether or not these efforts will ultimately be successful or whether the outcome will have a material impact on the Company’s financial position or results of operations.

## (8) Segment Information

The Company's businesses are grouped into five reportable segments for management and internal financial reporting purposes: Americas Retail, Americas Wholesale, Europe, Asia and Licensing. The Company's Americas Retail, Americas Wholesale, Europe and Licensing reportable segments are the same as their respective operating segments. Certain components of the Company's Asia operating segment are separate operating segments based on region, which have been aggregated into the Asia reportable segment for disclosure purposes. Management evaluates segment performance based primarily on revenues and earnings (loss) from operations before corporate performance-based compensation costs, asset impairment charges, net gains (losses) on lease terminations, restructuring charges and certain non-recurring charges, if any. The Company believes this segment reporting reflects how its 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 the Americas. The Americas Wholesale segment includes the Company's wholesale operations in the Americas. 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 and the Pacific. 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, asset impairment charges, net gains (losses) on lease terminations, restructuring charges and certain non-recurring charges, if any. Corporate overhead costs are presented separately and generally include, among other things, the following unallocated corporate costs: accounting and finance, executive compensation, corporate performance-based 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 November 2, 2019 and November 3, 2018 (in thousands):

	Three Months Ended		Nine Months Ended	
	Nov 2, 2019	Nov 3, 2018	Nov 2, 2019	Nov 3, 2018
Net revenue:				
Americas Retail	\$ 177,824	\$ 186,925	\$ 553,213	\$ 555,390
Americas Wholesale	56,398	52,698	144,505	127,630
Europe	277,253	254,037	827,817	771,470
Asia	82,261	89,461	250,752	256,298
Licensing	22,208	22,286	59,568	61,779
Total net revenue	<u>\$ 615,944</u>	<u>\$ 605,407</u>	<u>\$ 1,835,855</u>	<u>\$ 1,772,567</u>
Earnings (loss) from operations:				
Americas Retail	\$ 1,601	\$ 3,799	\$ 5,746	\$ 3,701
Americas Wholesale	11,216	10,392	27,452	21,743
Europe	19,475	7,410	54,742	17,608
Asia	(2,432)	1,938	(10,435)	7,637
Licensing	19,372	19,485	51,563	54,408
Total segment earnings from operations	49,232	43,024	129,068	105,097
Corporate overhead	(24,736)	(20,824)	(79,777)	(72,316)
European Commission fine <sup>1</sup>	—	(42,428)	—	(42,428)
Asset impairment charges <sup>2</sup>	(1,847)	(1,277)	(5,126)	(5,017)
Net gains on lease terminations <sup>3</sup>	—	—	—	152
Total earnings (loss) from operations	<u>\$ 22,649</u>	<u>\$ (21,505)</u>	<u>\$ 44,165</u>	<u>\$ (14,512)</u>

### Notes:

- During the third quarter of fiscal 2019, the Company recorded a charge of €37.0 million (\$42.4 million) related to an estimated fine imposed on the Company by the European Commission related to its inquiry concerning possible violations of European Union competition rules by the Company. Refer to Note 1 for further information.
- During each of the periods presented, the Company recognized asset impairment charges for certain retail locations resulting from under-performance and expected store closures. Refer to Note 15 for more information regarding these asset impairment charges.
- During the nine months ended November 3, 2018, the Company recorded net gains on lease terminations related primarily to the early termination of certain lease agreements in North America. The net gains on lease terminations were recorded during the three months ended May 5, 2018.

The table below presents information regarding geographic areas in which the Company operated. Net revenue is classified primarily based on the country where the Company's customer is located (in thousands):

	Three Months Ended		Nine Months Ended	
	Nov 2, 2019	Nov 3, 2018	Nov 2, 2019	Nov 3, 2018
<b>Net revenue:</b>				
U.S.	\$ 164,807	\$ 172,043	\$ 505,735	\$ 497,155
Italy	61,952	63,353	198,884	205,687
Canada	47,042	48,804	129,624	133,383
South Korea	38,596	40,327	105,411	113,583
Spain	33,511	33,331	101,408	99,682
Other foreign countries	247,828	225,263	735,225	661,298
Total product sales	593,736	583,121	1,776,287	1,710,788
Net royalties	22,208	22,286	59,568	61,779
Net revenue	<u>\$ 615,944</u>	<u>\$ 605,407</u>	<u>\$ 1,835,855</u>	<u>\$ 1,772,567</u>

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.

### (9) Borrowings and Finance Lease Obligations

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

	Nov 2, 2019	Feb 2, 2019
Mortgage debt, maturing monthly through January 2026	\$ 19,233	\$ 19,738
Finance lease obligations	17,247	16,702
Borrowings under credit facilities	32,968	—
Other	2,748	2,887
	<u>72,196</u>	<u>39,327</u>
Less current installments	37,484	4,315
Long-term debt and finance lease obligations	<u>\$ 34,712</u>	<u>\$ 35,012</u>

#### *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 November 2, 2019, outstanding borrowings under the Mortgage Debt, net of debt issuance costs of \$0.1 million, were \$19.2 million. At February 2, 2019, outstanding borrowings under the Mortgage Debt, net of debt issuance costs of \$0.1 million, were \$19.7 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, short-term investment balances and availability under borrowing arrangements 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 asset (liability) was approximately \$(0.2) million and \$1.0 million as of November 2, 2019 and February 2, 2019, respectively.

#### *Finance Lease Obligations*

During fiscal 2018, the Company began the relocation of its primary European distribution center to the Netherlands. As a result, the Company entered into a finance lease of \$17.0 million for equipment used in the new facility. The finance lease primarily provides for monthly minimum lease payments through May 2027 with an effective interest rate of approximately 6%. As of November 2, 2019 and February 2, 2019, the finance lease obligation was \$13.0 million and \$14.7 million, respectively.

The Company also has smaller finance leases related primarily to computer hardware and software. During the nine months ended November 2, 2019, the Company entered into additional finance leases of approximately \$3.1 million related primarily to computer hardware and software. As of November 2, 2019 and February 2, 2019, these finance lease obligations totaled \$4.3 million and \$2.0 million, respectively.

#### *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, and on April 22, 2019, the credit facility was amended to permit, among other things, the offering and sale of convertible senior notes and certain transactions related thereto (as amended, the "Credit Facility"). See Note 10 for more information regarding the Company's convertible senior notes. 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 and inventory as of November 2, 2019, the Company could have borrowed up to \$150 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 November 2, 2019, the Company had \$2.3 million in outstanding standby letters of credit, no outstanding documentary letters of credit and no outstanding borrowings under the Credit Facility.

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 generally if borrowings exceed 80% of the borrowing base. 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 committed and uncommitted borrowing agreements, primarily for working capital purposes, with various banks in Europe. Some of these agreements include certain equity-based financial covenants. As of November 2, 2019, the Company had \$30.1 million in outstanding borrowings, no outstanding documentary letters of credit and \$116.4 million available for future borrowings under these agreements. The agreements are denominated primarily in euros and provide for annual interest rates ranging from 0.5% to 4.6%.

The Company, through its China subsidiary, maintains a short-term uncommitted bank borrowing agreement, primarily for working capital purposes. The multicurrency borrowing agreement provides for borrowing up to \$20.0 million. As of November 2, 2019, the Company had \$2.9 million in outstanding borrowings under this agreement.

#### *Other*

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

### **(10) Convertible Senior Notes and Related Transactions**

#### *2.00% Convertible Senior Notes due 2024*

In April 2019, the Company issued \$300 million principal amount of 2.00% convertible senior notes due 2024 (the “Notes”) in a private offering. In connection with the issuance of the Notes, the Company entered into an indenture (the “Indenture”) with respect to the Notes with U.S. Bank N.A., as trustee (the “Trustee”). The Notes are senior unsecured obligations of the Company and bear interest at an annual rate of 2.00% payable semi-annually in arrears on April 15 and October 15 of each year, beginning on October 15, 2019. The Notes will mature on April 15, 2024, unless earlier repurchased or converted in accordance with their terms.

The Notes are convertible in certain circumstances into cash, shares of the Company’s common stock, or a combination of cash and shares of the Company’s common stock, at the Company’s election, at an initial conversion rate of 38.7879 shares of common stock per \$1,000 principal amount of Notes, which is equivalent to an initial conversion price of approximately \$25.78 per share, subject to adjustment upon the occurrence of certain events. Prior to November 15, 2023, the Notes are convertible only upon the occurrence of certain events and during certain periods, and thereafter, at any time until the close of business on the second scheduled trading day immediately preceding the maturity date of the Notes. Following certain corporate events described in the Indenture that occur prior to the maturity date, the conversion rate will be increased for a holder who elects to convert its Notes in connection with such corporate event in certain circumstances. The Notes are not redeemable prior to maturity, and no sinking fund is provided for the Notes.

If the Company undergoes a “fundamental change,” as defined in the Indenture, subject to certain conditions, holders of the Notes may require the Company to purchase for cash all or any portion of their Notes. The fundamental change purchase price will be 100% of the principal amount of the Notes to be purchased plus any accrued and unpaid interest up to but excluding the fundamental change purchase date.

The Indenture contains certain other customary terms and covenants, including that upon certain events of default occurring and continuing, either the Trustee or the holders of at least 25% in principal amount of the outstanding Notes may declare 100% of the principal of, and accrued and unpaid interest on, all the Notes to be due and payable.

Under GAAP, certain convertible debt instruments that may be settled in cash on conversion are required to be separately accounted for as liability and equity components of the instrument in a manner that reflects the issuer’s non-convertible debt borrowing rate. Accordingly, in accounting for the issuance of the Notes, the

Company separated the Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar liability that does not have an associated convertible feature. The carrying amount of the equity component, which is recognized as a debt discount, represents the difference between the proceeds from the issuance of the Notes and the fair value of the liability component of the Notes. The excess of the principal amount of the liability component over its carrying amount (“debt discount”) will be amortized to interest expense using an effective interest rate of 6.8% over the term of the Notes. The equity component is not remeasured as long as it continues to meet the conditions for equity classification. During the three and nine months ended November 2, 2019, the Company recorded \$2.4 million and \$5.1 million of interest expense related to the amortization of the debt discount, respectively.

Debt issuance costs related to the Notes were comprised of discounts and commissions payable to the initial purchasers of \$3.8 million and third-party offering costs of approximately \$1.5 million. As of November 2, 2019, approximately \$0.2 million of the total \$5.3 million in debt issuance costs was included in accrued expenses in the Company’s condensed consolidated balance sheet.

In accounting for the debt issuance costs related to the issuance of the Notes, the Company allocated the total amount incurred to the liability and equity components based on their relative values. Debt issuance costs attributable to the liability component were recorded as a contra-liability and are presented net against the convertible senior notes balance on the Company’s condensed consolidated balance sheets. These costs are amortized to interest expense using the effective interest method over the term of the Notes. During the three and nine months ended November 2, 2019, the Company recorded \$0.2 million and \$0.4 million related to the amortization of debt issuance costs. Debt issuance costs attributable to the equity component are netted with the equity component in stockholders’ equity.

The Notes consist of the following components as of November 2, 2019 (in thousands):

Liability component:	
Principal	\$ 300,000
Unamortized debt discount	(51,466)
Unamortized issuance costs	(3,838)
Net carrying amount	<u>\$ 244,696</u>
Equity component, net <sup>1</sup>	\$ 42,324

Notes:

<sup>1</sup> Included in paid-in capital within stockholders’ equity on the condensed consolidated balance sheets and is net of debt issuance costs and deferred taxes.

As of November 2, 2019, the fair value of the Notes was approximately \$231.1 million. The fair value of the Notes is determined based on inputs that are observable in the market and have been classified as Level 2 in the fair value hierarchy.

#### *Convertible Bond Hedge and Warrant Transactions*

In connection with the offering of the Notes, the Company entered into convertible note hedge transactions whereby the Company has the option to purchase a total of approximately 11.6 million shares of its common stock at a price of approximately \$25.78 per share, in each case subject to adjustment in certain circumstances. The total cost of the convertible note hedge transactions was \$61.0 million. In addition, the Company sold warrants whereby the holders of the warrants have the option to purchase a total of approximately 11.6 million shares of the Company’s common stock at a price of \$46.88 per share. The Company received \$28.1 million in cash proceeds from the sale of these warrants. Taken together, the purchase of the convertible note hedges and sale of the warrants are intended to offset dilution from the conversion of the Notes by effectively increasing the overall conversion price from \$25.78 per share to \$46.88 per share. The warrant transaction may have a dilutive effect with respect

to the Company's common stock to the extent the market price per share of the Company's common stock exceeds the strike price of the warrants. As these transactions meet certain accounting criteria, the convertible note hedges and warrants are recorded in stockholders' equity, are not accounted for as derivatives and are not remeasured each reporting period.

The Company recorded a net deferred tax liability of \$13.3 million in connection with the debt discount associated with the Notes and recorded a deferred tax asset of \$14.5 million in connection with the convertible note hedge transactions. The total deferred tax impact is included in noncurrent deferred tax assets on the Company's condensed consolidated balance sheets.

#### (11) 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 November 2, 2019 and November 3, 2018 (in thousands):

	Three Months Ended		Nine Months Ended	
	Nov 2, 2019	Nov 3, 2018	Nov 2, 2019	Nov 3, 2018
Stock options	\$ 829	\$ 824	\$ 2,116	\$ 2,191
Stock awards/units	4,298	3,692	12,318	10,154
Employee Stock Purchase Plan	58	29	205	189
Total share-based compensation expense	\$ 5,185	\$ 4,545	\$ 14,639	\$ 12,534

Unrecognized compensation cost related to nonvested stock options and nonvested stock awards/units totaled approximately \$9.2 million and \$18.9 million, respectively, as of November 2, 2019. This cost is expected to be recognized over a weighted average period of 1.7 years. The weighted average grant date fair value of stock options granted was \$5.41 and \$5.89 during the nine months ended November 2, 2019 and November 3, 2018, respectively.

#### Grants

In connection with a new employment agreement entered into between the Company and Carlos Alberini (the "Alberini Employment Agreement"), who became the Company's Chief Executive Officer on February 20, 2019, the Company granted Mr. Alberini 600,000 stock options and 250,000 nonvested stock units which are subject to the achievement of certain performance-based vesting conditions. Mr. Alberini was also granted 150,000 restricted stock units which are considered contingently returnable as a result of certain service conditions set forth in the Alberini Employment Agreement.

On June 10, 2019, the Company made a special grant of 1,077,700 stock options to certain of its employees.

On June 20, 2019, the Company granted select key management 205,339 nonvested stock units which are subject to certain performance-based vesting conditions. On June 25, 2018, the Company granted select key management 619,578 nonvested stock units which are subject to certain performance-based vesting or market-based vesting conditions.

#### Annual Grants

On March 29, 2019, the Company made an annual grant of 5,100 stock options and 280,700 nonvested stock awards/units to its employees. On March 30, 2018, the Company made an annual grant of 431,371 stock options and 490,528 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 either (i) the end of the first fiscal year or (ii) the first anniversary of the date of grant, followed by annual vesting periods which may range from two-to-three years.

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. 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 November 2, 2019:

	Number of Units	Weighted Average Grant Date Fair Value
Nonvested at February 2, 2019	1,371,230	\$ 16.44
Granted	455,339	18.33
Vested	103,369	20.70
Forfeited	379,738	17.67
Nonvested at November 2, 2019	<u>1,343,462</u>	<u>\$ 16.41</u>

#### 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.

The following table summarizes the activity for nonvested market-based units during the nine months ended November 2, 2019:

	Number of Units	Weighted Average Grant Date Fair Value
Nonvested at February 2, 2019	518,409	\$ 14.28
Granted <sup>1</sup>	17,557	15.20
Vested <sup>1</sup>	158,014	15.20
Forfeited	89,750	15.58
Nonvested at November 2, 2019	<u>288,202</u>	<u>\$ 13.43</u>

#### Notes:

<sup>1</sup> As a result of the achievement of certain market-based vesting conditions, there were 17,557 shares that vested in addition to the original target number of shares granted in fiscal 2017.

## (12) 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 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 November 2, 2019 with expiration or option exercise dates ranging from calendar years 2020 to 2021.

Aggregate rent, common area maintenance charges and property tax expense recorded under these four related party leases were approximately \$3.8 million and \$3.7 million for the nine months ended November 2, 2019 and November 3, 2018, respectively. The Company believes that the terms of the related party leases 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 entities affiliated with the Marciano Trusts (the “Aircraft Entities”), through informal arrangements with the Aircraft Entities and independent third-party management companies contracted by the Aircraft Entities to manage their aircraft. The total fees incurred under these arrangements for the nine months ended November 2, 2019 and November 3, 2018 were approximately \$0.3 million and \$1.0 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 February 2, 2019.

### **(13) Commitments and Contingencies**

#### *Investment Commitments*

As of November 2, 2019, the Company had an unfunded commitment to invest €3.6 million (\$4.1 million) in a private equity fund. Refer to Note 15 for further information.

#### *Legal and Other Proceedings*

The Company is involved in legal proceedings, arising both in the ordinary course of business and otherwise, including the proceedings described below as well as various other claims and other matters incidental to the Company’s business. Unless otherwise stated, the resolution of any particular proceeding is not currently expected to have a material adverse impact on the Company’s financial position or results of operations. Even if such an impact could be material, we may not be able to estimate the reasonably possible loss or range of loss until developments in the proceedings have provided sufficient information to support an assessment.

The Company has received customs tax assessment notices from the Italian Customs Agency (“ICA”) 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 (\$11.0 million), including potential penalties and interest. The Company strongly disagreed with the ICA’s positions and therefore filed appeals with the Milan First Degree Tax Court (“MFDTC”). Those appeals were split into a number of different cases that were then heard by different sections of the MFDTC. The MFDTC ruled in favor of the Company on all of these appeals. The ICA subsequently appealed €9.7 million (\$10.9 million) of these favorable MFDTC judgments with the Appeals Court. To date, €8.5 million (\$9.4 million) have been decided in favor of the Company and €1.2 million (\$1.4 million) have been decided in favor of the ICA. The Company believes that the unfavorable Appeals Court ruling is incorrect and inconsistent with the prior rulings on similar matters by both the MFDTC and other judges within the Appeals Court, and plans to appeal the decision to the Supreme Court. The ICA has appealed most of the favorable Appeals Court rulings to the Supreme Court. There can be no assurances the Company will be successful in the 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 this matter, it is unable to predict with certainty whether or not these efforts will ultimately be successful or whether the outcome will have a material impact on the Company’s financial position or results of operations.

#### *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 every third

anniversary beginning in March 2019, 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 \$1.3 million and \$1.4 million as of November 2, 2019 and February 2, 2019, 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 contributions 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 \$3.5 million as of November 2, 2019 and February 2, 2019, respectively.

A reconciliation of the total carrying amount of redeemable noncontrolling interests for the nine months ended November 2, 2019 and November 3, 2018 is as follows (in thousands):

	<b>Nine Months Ended</b>	
	<b>Nov 2, 2019</b>	<b>Nov 3, 2018</b>
Beginning balance	\$ 4,853	\$ 5,590
Foreign currency translation adjustment	(10)	(786)
Ending balance	<u>\$ 4,843</u>	<u>\$ 4,804</u>

#### **(14) 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.

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 \$65.4 million and \$61.7 million as of November 2, 2019 and February 2, 2019, 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 policy investments, the Company recorded unrealized gains of \$2.0 million and \$5.0 million in other income during the three and nine months ended November 2, 2019, respectively, and unrealized losses of \$2.3 million and \$1.6 million in other expense during the three and nine months ended November 3, 2018, respectively. The projected benefit obligation was \$52.3 million and \$52.2 million as of November 2, 2019 and February 2, 2019, 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 November 2, 2019, respectively. SERP benefit payments of \$0.4 million and \$1.3 million were made during the three and nine months ended November 3, 2018, respectively.

### Foreign Pension Plans

In certain foreign jurisdictions, primarily in Switzerland, the Company is required to guarantee the returns on Company-sponsored defined contribution plans in accordance with local regulations. These plans are typically government-mandated defined contribution plans that provide employees with a minimum investment return, and as such, are treated under pension accounting in accordance with authoritative guidance. Under the Swiss plan, both the Company and certain of its employees with annual earnings in excess of government determined amounts are required to make contributions into a fund managed by an independent investment fiduciary. The Company's contributions must be made in an amount at least equal to the employee's contribution. Minimum employee contributions are based on the respective employee's age, salary and gender.

As of November 2, 2019 and February 2, 2019, the foreign pension plans had a total projected benefit obligation of \$38.8 million and \$31.1 million, respectively, and plan assets held in independent investment fiduciaries of \$32.4 million and \$25.4 million, respectively. The net liability of \$6.4 million and \$5.7 million was included in other long-term liabilities in the Company's condensed consolidated balance sheets as of November 2, 2019 and February 2, 2019, respectively.

The components of net periodic defined benefit pension cost for the three and nine months ended November 2, 2019 and November 3, 2018 related to the Company's defined benefit plans are as follows (in thousands):

	<b>Three Months Ended Nov 2, 2019</b>		
	<b>SERP</b>	<b>Foreign Pension Plans</b>	<b>Total</b>
Service cost	\$ —	\$ 809	\$ 809
Interest cost	481	68	549
Expected return on plan assets	—	(78)	(78)
Net amortization of unrecognized prior service credit	—	(10)	(10)
Net amortization of actuarial losses	15	97	112
Net periodic defined benefit pension cost	<u>\$ 496</u>	<u>\$ 886</u>	<u>\$ 1,382</u>

	<b>Nine Months Ended Nov 2, 2019</b>		
	<b>SERP</b>	<b>Foreign Pension Plans</b>	<b>Total</b>
Service cost	\$ —	\$ 2,424	\$ 2,424
Interest cost	1,443	203	1,646
Expected return on plan assets	—	(233)	(233)
Net amortization of unrecognized prior service credit	—	(29)	(29)
Net amortization of actuarial losses	46	288	334
Net periodic defined benefit pension cost	<u>\$ 1,489</u>	<u>\$ 2,653</u>	<u>\$ 4,142</u>

	<b>Three Months Ended Nov 3, 2018</b>		
	<b>SERP</b>	<b>Foreign Pension Plans</b>	<b>Total</b>
Service cost	\$ —	\$ 730	\$ 730
Interest cost	471	54	525
Expected return on plan assets	—	(72)	(72)
Net amortization of unrecognized prior service credit	—	(7)	(7)
Net amortization of actuarial losses	47	103	150
Net periodic defined benefit pension cost	<u>\$ 518</u>	<u>\$ 808</u>	<u>\$ 1,326</u>

**Nine Months Ended Nov 3, 2018**

	Foreign Pension		
	SERP	Plans	Total
Service cost	\$ —	\$ 2,224	\$ 2,224
Interest cost	1,415	164	1,579
Expected return on plan assets	—	(221)	(221)
Net amortization of unrecognized prior service credit	—	(21)	(21)
Net amortization of actuarial losses	140	313	453
Net periodic defined benefit pension cost	\$ 1,555	\$ 2,459	\$ 4,014

**(15) Fair Value Measurements**

Authoritative guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The guidance establishes a fair value hierarchy, which prioritizes the inputs used in measuring fair value into three broad levels as follows:

Level 1—Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2—Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (i.e. interest rates, yield curves, etc.) and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

Level 3—Unobservable inputs that reflect assumptions about what market participants would use in pricing the asset or liability. These inputs would be based on the best information available, including the Company's own data.

The following table presents the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of November 2, 2019 and February 2, 2019 (in thousands):

Recurring Fair Value Measures	Fair Value Measurements at Nov 2, 2019				Fair Value Measurements at Feb 2, 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets:</b>								
Foreign exchange currency contracts	\$ —	\$ 5,231	\$ —	\$ 5,231	\$ —	\$ 4,690	\$ —	\$ 4,690
Interest rate swap	—	—	—	—	—	1,033	—	1,033
<b>Total</b>	<b>\$ —</b>	<b>\$ 5,231</b>	<b>\$ —</b>	<b>\$ 5,231</b>	<b>\$ —</b>	<b>\$ 5,723</b>	<b>\$ —</b>	<b>\$ 5,723</b>
<b>Liabilities:</b>								
Foreign exchange currency contracts	\$ —	\$ 177	\$ —	\$ 177	\$ —	\$ 77	\$ —	\$ 77
Interest rate swaps	—	180	—	180	—	—	—	—
Deferred compensation obligations	—	13,963	—	13,963	—	14,405	—	14,405
<b>Total</b>	<b>\$ —</b>	<b>\$ 14,320</b>	<b>\$ —</b>	<b>\$ 14,320</b>	<b>\$ —</b>	<b>\$ 14,482</b>	<b>\$ —</b>	<b>\$ 14,482</b>

There were no transfers of financial instruments between the three levels of fair value hierarchy during the nine months ended November 2, 2019 or during the year ended February 2, 2019.

Foreign exchange currency contracts may be entered into by the Company to hedge the future payment of inventory and intercompany transactions by non-U.S. subsidiaries. Periodically, the Company may also use foreign exchange currency contracts to hedge the translation and economic exposures related to its net investments in certain of its international subsidiaries. The fair values of the Company's foreign exchange currency contracts are based on quoted foreign exchange forward rates at the reporting date. The fair values of the Company's interest rate swaps are based upon inputs corroborated by observable market data. Deferred compensation obligations to employees are adjusted based on changes in the fair value of the underlying employee-directed investments. Fair value of these obligations is based upon inputs corroborated by observable market data.



As of November 2, 2019 and February 2, 2019, the Company included €1.2 million (\$1.3 million) and €1.2 million (\$1.4 million), respectively, in other assets in the Company's condensed consolidated balance sheet related to its investment in a private equity fund. As permitted in accordance with authoritative guidance, the Company uses net asset value per share as a practical expedient to measure the fair value of this investment and has not included this investment in the fair value hierarchy as disclosed above. As a result of changes in the value of the private equity investment, the Company recorded unrealized losses of €0.1 million (\$0.1 million) and €0.1 million (\$0.2 million) in other expense during the nine months ended November 2, 2019 and November 3, 2018, respectively. During fiscal 2019, the Company funded contributions of €0.9 million (\$1.1 million) in this investment. As of November 2, 2019, the Company had an unfunded commitment to invest an additional €3.6 million (\$4.1 million) in the private equity fund.

The fair values of the Company's debt instruments (see Note 9) are based on the amount of future cash flows associated with each instrument discounted using the Company's incremental borrowing rate. As of November 2, 2019 and February 2, 2019, the carrying value was not materially different from fair value, as the interest rates on the Company's debt approximated rates currently available to the Company. The fair value of the Company's convertible senior notes (see Note 10) is determined based on inputs that are observable in the market and have been classified as Level 2 in the fair value hierarchy.

The carrying amount of the Company's remaining financial instruments, which principally include cash and cash equivalents, trade receivables, accounts payable and accrued expenses, approximates fair value due to the relatively short maturity of such instruments.

#### *Long-Lived Assets*

Long-lived assets, such as property and equipment, operating lease ROU assets and purchased intangibles subject to amortization, are reviewed for impairment quarterly or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The majority of the Company's long-lived assets relate to its retail operations which consist primarily of regular retail and flagship locations. The Company considers each individual regular retail location as an asset group for impairment testing, which is the lowest level at which individual cash flows can be identified. The asset group includes leasehold improvements, furniture, fixtures and equipment, computer hardware and software, operating lease ROU assets, certain long-term security deposits as well as lease acquisition costs, and excludes operating lease liabilities. The Company reviews regular retail locations in penetrated markets for impairment risk once the locations have been opened for at least one year in their current condition, or sooner as changes in circumstances require. The Company believes that waiting at least one year allows a location to reach a maturity level where a more comprehensive analysis of financial performance can be performed. The Company evaluates impairment risk for regular retail locations in new markets, where the Company is in the early stages of establishing its presence, once brand awareness has been established. The Company also evaluates impairment risk for retail locations that are expected to be closed in the foreseeable future. The Company has flagship locations which are used as a regional marketing tool to build brand awareness and promote the Company's current product. Impairment for these locations is tested at a reporting unit level similar to goodwill since they do not have separately identifiable cash flows.

An asset is considered to be impaired if the Company determines that the carrying value may not be recoverable based upon its assessment of the asset's ability to continue to generate earnings from operations and positive cash flow in future periods or if significant changes in the Company's strategic business objectives and utilization of the assets occurred. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows adjusted for lease payments, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the estimated fair value. The Company uses market participant rents to calculate fair value of ROU assets and discounted future cash flows of the asset group to quantify fair value for other long-lived assets. These nonrecurring fair value measurements are considered Level 3 inputs as defined above. The impairment loss calculations require management to apply judgment in estimating future cash flows and the discount rates that reflect the risk inherent in future cash flows. Future expected cash flows for assets in regular retail locations are based on management's estimates of future cash flows over the remaining lease period or expected life, if shorter. For expected location closures, the Company will evaluate whether it is necessary to

shorten the useful life for any of the assets within the respective asset group. The Company will use this revised useful life when estimating the asset group's future cash flows. The Company considers historical trends, expected future business trends and other factors when estimating the future cash flow for each regular retail location. The Company also considers factors such as: the local environment for each regular retail location, including mall traffic and competition; the Company's ability to successfully implement strategic initiatives; and the ability to control variable costs such as cost of sales and payroll and, in some cases, renegotiate lease costs. If actual results are not consistent with the assumptions and judgments used in estimating future cash flows and asset fair values, there may be additional exposure to future impairment losses that could be material to the Company's results of operations.

The Company recorded asset impairment charges of \$1.8 million and \$5.1 million during the three and nine months ended November 2, 2019, respectively, and \$1.3 million and \$5.0 million during the three and nine months ended November 3, 2018, respectively. The asset impairment charges related to the impairment of certain retail locations primarily in North America and Europe and, to a lesser extent, Asia resulting from under-performance and expected store closures.

## **(16) Derivative Financial Instruments**

### *Hedging Strategy*

#### *Foreign Exchange Currency Contracts*

The Company operates in foreign countries, which exposes it to market risk associated with foreign currency exchange rate fluctuations. The Company has entered into certain forward contracts to hedge the risk of foreign currency rate fluctuations. The Company has elected to apply the hedge accounting rules in accordance with authoritative guidance for certain of these hedges.

The Company's primary objective is to hedge the variability in forecasted cash flows due to the foreign currency risk. Various transactions that occur primarily in Europe, Canada, South Korea, China, Hong Kong and Mexico are denominated in U.S. dollars, British pounds and Russian roubles and thus are exposed to earnings risk as a result of exchange rate fluctuations when converted to their functional currencies. These types of transactions include U.S. dollar-denominated purchases of merchandise and U.S. dollar- and British pound-denominated intercompany liabilities. In addition, certain operating expenses, tax liabilities and pension-related liabilities are denominated in Swiss francs and are exposed to earnings risk as a result of exchange rate fluctuations when converted to the functional currency. The Company enters into derivative financial instruments, including forward exchange currency contracts, to offset some, but not all, of the exchange risk on certain of these anticipated foreign currency transactions.

Periodically, the Company may also use foreign exchange currency contracts to hedge the translation and economic exposures related to its net investments in certain of its international subsidiaries.

#### *Interest Rate Swap Agreements*

The Company is exposed to interest rate risk on its floating-rate debt. The Company has entered into interest rate swap agreements to effectively convert its floating-rate debt to a fixed-rate basis. The principal objective of these contracts is to eliminate or reduce the variability of the cash flows in interest payments associated with the Company's floating-rate debt, thus reducing the impact of interest rate changes on future interest payment cash flows. The Company has elected to apply the hedge accounting rules in accordance with authoritative guidance for certain of these contracts. Refer to Note 9 for further information.

The impact of the credit risk of the counterparties to the derivative contracts is considered in determining the fair value of the foreign exchange currency contracts and interest rate swap agreements. As of November 2, 2019, credit risk has not had a significant effect on the fair value of the Company's foreign exchange currency contracts and interest rate swap agreements.

*Hedge Accounting Policy*

*Foreign Exchange Currency Contracts*

U.S. dollar forward contracts are used to hedge forecasted merchandise purchases over specific months. Changes in the fair value of these U.S. dollar forward contracts, designated as cash flow hedges, are recorded as a component of accumulated other comprehensive income (loss) within stockholders' equity and are recognized in cost of product sales in the period that approximates the time the hedged merchandise inventory is sold. The Company may hedge forecasted intercompany royalties over specific months. Changes in the fair value of these U.S. dollar forward contracts, designated as cash flow hedges, are recorded as a component of accumulated other comprehensive income (loss) within stockholders' equity and are recognized in other income (expense) in the period in which the royalty expense is incurred.

The Company has also used U.S. dollar forward contracts to hedge the net investments of certain of the Company's international subsidiaries over specific months. Changes in the fair value of these U.S. dollar forward contracts, designated as net investment hedges, are recorded in foreign currency translation adjustment as a component of accumulated other comprehensive income (loss) within stockholders' equity and are not recognized in earnings (loss) until the sale or liquidation of the hedged net investment.

The Company has foreign exchange currency contracts that are not designated as hedging instruments for accounting purposes. Changes in fair value of foreign exchange currency contracts not designated as hedging instruments are reported in net earnings (loss) as part of other income (expense).

*Interest Rate Swap Agreements*

Interest rate swap agreements are used to hedge the variability of the cash flows in interest payments associated with the Company's floating-rate debt. Changes in the fair value of interest rate swap agreements designated as cash flow hedges are recorded as a component of accumulated other comprehensive income (loss) within stockholders' equity and are amortized to interest expense over the term of the related debt.

Periodically, the Company may also enter into interest rate swap agreements that are not designated as hedging instruments for accounting purposes. Changes in the fair value of interest rate swap agreements not designated as hedging instruments are reported in net earnings (loss) as part of other income (expense).

### Summary of Derivative Instruments

The fair value of derivative instruments in the condensed consolidated balance sheets as of November 2, 2019 and February 2, 2019 is as follows (in thousands):

	Derivative Balance Sheet Location	Fair Value at Nov 2, 2019	Fair Value at Feb 2, 2019
<b>ASSETS:</b>			
Derivatives designated as hedging instruments:			
Cash flow hedges:			
	Other current assets/ Other assets		
Foreign exchange currency contracts		\$ 4,470	\$ 4,058
Interest rate swap	Other assets	—	1,033
Total derivatives designated as hedging instruments		4,470	5,091
Derivatives not designated as hedging instruments:			
	Other current assets/ Other assets		
Foreign exchange currency contracts		761	632
Total		\$ 5,231	\$ 5,723
<b>LIABILITIES:</b>			
Derivatives designated as hedging instruments:			
Cash flow hedges:			
	Accrued expenses and other current liabilities		
Foreign exchange currency contracts		\$ 103	\$ 77
Interest rate swap	Other long-term liabilities	180	—
Total derivatives designated as hedging instruments		283	77
Derivatives not designated as hedging instruments:			
Foreign exchange currency contracts	Other long-term liabilities	74	—
Total		\$ 357	\$ 77

### Derivatives Designated as Hedging Instruments

#### Foreign Exchange Currency Contracts Designated as Cash Flow Hedges

During the nine months ended November 2, 2019, the Company purchased U.S. dollar forward contracts in Europe totaling US\$116.6 million that were designated as cash flow hedges. As of November 2, 2019, the Company had forward contracts outstanding for its European operations of US\$158.4 million to hedge forecasted merchandise purchases, which are expected to mature over the next 18 months. There were no outstanding foreign exchange currency contracts for the Company's Canadian operations as of November 2, 2019.

As of November 2, 2019, accumulated other comprehensive income (loss) related to foreign exchange currency contracts included a net unrealized gain of approximately \$7.5 million, net of tax, which \$6.8 million will be recognized in cost of product sales over the following 12 months, at the then current values on a pre-tax basis, which can be different than the current quarter-end values.

At February 2, 2019, the Company had forward contracts outstanding for its European and Canadian operations of US\$175.2 million and US\$3.9 million, respectively, that were designated as cash flow hedges.

#### Interest Rate Swap Agreement Designated as Cash Flow Hedge

During fiscal 2017, the Company entered into an interest rate swap agreement with a notional amount of \$21.5 million, designated as a cash flow hedge, to hedge the variability of cash flows in interest payments associated with the Company's floating-rate debt. This interest rate swap agreement matures in January 2026 and converts the nature of the Company's real estate secured term loan from LIBOR floating-rate debt to fixed-rate debt, resulting in a swap fixed rate of approximately 3.06%.

As of November 2, 2019, accumulated other comprehensive income (loss) related to the interest rate swap agreement included a net unrealized loss of \$0.1 million, net of tax, which will be recognized in interest expense after the following 12 months, at the then current values on a pre-tax basis, which can be different than the current quarter-end values.

The following table summarizes the gains (losses) before taxes recognized on the derivative instruments designated as cash flow hedges in OCI and net earnings (loss) for the three and nine months ended November 2, 2019 and November 3, 2018 (in thousands):

	Gains (Losses) Recognized in OCI <sup>1</sup>		Location of Gains (Losses) Reclassified from Accumulated OCI into Earnings (Loss) <sup>1</sup>	Gains (Losses) Reclassified from Accumulated OCI into Earnings (Loss)	
	Three Months Ended			Three Months Ended	
	Nov 2, 2019	Nov 3, 2018		Nov 2, 2019	Nov 3, 2018
Derivatives designated as cash flow hedges:					
Foreign exchange currency contracts	\$ 958	\$ 1,630	Cost of product sales	\$ 2,826	\$ (1,618)
Interest rate swap	(99)	203	Interest expense	28	21
	Gains (Losses) Recognized in OCI <sup>1</sup>		Location of Gain (Loss) Reclassified from Accumulated OCI into Earnings (Loss) <sup>1</sup>	Gains (Losses) Reclassified from Accumulated OCI into Earnings (Loss)	
	Nine Months Ended			Nine Months Ended	
	Nov 2, 2019	Nov 3, 2018		Nov 2, 2019	Nov 3, 2018
Derivatives designated as cash flow hedges:					
Foreign exchange currency contracts	\$ 8,676	\$ 13,690	Cost of product sales	\$ 4,813	\$ (5,646)
Foreign exchange currency contracts	—	2	Other income (expense)	—	(201)
Interest rate swap	(1,095)	308	Interest expense	118	60

Notes:

- <sup>1</sup> During the first quarter of fiscal 2020, the Company adopted new authoritative guidance which eliminated the requirement to separately measure and report ineffectiveness for instruments that qualify for hedge accounting and generally requires that the entire change in the fair value of such instruments ultimately be presented in the same line as the respective hedge item. As a result, there is no interest component recognized for the ineffective portion of instruments that qualify for hedge accounting, but rather all changes in the fair value of such instruments are included in other comprehensive income (loss) during the three and nine months ended November 2, 2019. Upon adoption of this guidance, the Company reclassified \$2.0 million in gains from retained earnings to accumulated other comprehensive loss related to the previously recorded interest component on outstanding instruments that qualified for hedge accounting. During the three and nine months ended November 3, 2018, the Company recognized gains of \$0.6 million and \$2.0 million, respectively, resulting from the ineffective portion related to foreign exchange currency contracts in interest income. There was no ineffectiveness recognized related to the interest rate swap during the three and nine months ended November 3, 2018.

The following table summarizes net after-tax derivative activity recorded in accumulated other comprehensive income (loss) (in thousands):

	Three Months Ended		Nine Months Ended	
	Nov 2, 2019	Nov 3, 2018	Nov 2, 2019	Nov 3, 2018
Beginning balance gain (loss)	\$ 9,069	\$ (142)	\$ 2,999	\$ (14,369)
Cumulative adjustment from adoption of new accounting guidance <sup>1</sup>	—	—	1,981	—
Net gains from changes in cash flow hedges	776	1,596	6,618	12,175
Net (gains) losses reclassified into earnings (loss)	(2,527)	1,419	(4,280)	5,067
Ending balance gain (loss)	\$ 7,318	\$ 2,873	\$ 7,318	\$ 2,873

*Notes:*

- <sup>1</sup> During the first quarter of fiscal 2020, the Company adopted new authoritative guidance which eliminated the requirement to separately measure and report ineffectiveness for instruments that qualify for hedge accounting and generally requires that the entire change in the fair value of such instruments ultimately be presented in the same line as the respective hedge item. As a result, there is no interest component recognized for the ineffective portion of instruments that qualify for hedge accounting, but rather all changes in the fair value of such instruments are included in other comprehensive income (loss) during the three and nine months ended November 2, 2019. Upon adoption of this guidance, the Company reclassified \$2.0 million in gains from retained earnings to accumulated other comprehensive loss related to the previously recorded interest component on outstanding instruments that qualified for hedge accounting.

*Foreign Exchange Currency Contracts Not Designated as Hedging Instruments*

As of November 2, 2019, the Company had euro foreign exchange currency contracts to purchase US\$45.7 million expected to mature over the next 19 months. There were no Canadian dollar foreign exchange currency contracts as of November 2, 2019.

The following table summarizes the gains (losses) before taxes recognized on the derivative instruments not designated as hedging instruments in other income (expense) for the three and nine months ended November 2, 2019 and November 3, 2018 (in thousands):

	Location of Gain (Loss) Recognized in Earnings (Loss)	Gain (Loss) Recognized in Earnings (Loss)			
		Three Months Ended		Nine Months Ended	
		Nov 2, 2019	Nov 3, 2018	Nov 2, 2019	Nov 3, 2018
Derivatives not designated as hedging instruments:					
Foreign exchange currency contracts	Other income (expense)	\$ (184)	\$ 794	\$ 624	\$ 6,700

At February 2, 2019, the Company had euro foreign exchange currency contracts to purchase US\$8.2 million. There were no Canadian dollar foreign exchange currency contracts as of February 2, 2019.

**(17) Subsequent Events**

*Dividends*

On November 26, 2019, the Company announced a regular quarterly cash dividend of \$0.1125 per share on the Company's common stock. The cash dividend will be paid on January 2, 2020 to shareholders of record as of the close of business on December 11, 2019.

## **ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.**

### **General**

Unless the context indicates otherwise, when we refer to “we,” “us,” “our” or the “Company” in this Form 10-Q, we are referring to Guess?, Inc. (“GUESS?”) and its subsidiaries on a consolidated basis.

### ***Important Factors Regarding Forward-Looking Statements***

This Quarterly Report on Form 10-Q, including documents incorporated by reference herein, contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may also be contained in the Company’s other reports filed under the Securities Exchange Act of 1934, as amended, in its press releases and in other documents. In addition, from time-to-time, the Company, through its management, may make oral forward-looking statements. These statements relate to expectations, analyses and other information based on current plans, forecasts of future results and estimates of amounts not yet determinable. These statements also relate to our goals, future prospects, global cost reduction opportunities and profitability efforts, capital allocation plans, cash needs and current business strategies and strategic initiatives. These forward-looking statements are identified by their use of terms and phrases such as “anticipate,” “believe,” “continue,” “could,” “create,” “estimate,” “expect,” “goal,” “intend,” “may,” “outlook,” “pending,” “plan,” “predict,” “project,” “see,” “should,” “strategy,” “will,” “would,” and other similar terms and phrases, including references to assumptions.

Although we believe that the expectations reflected in any of our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed. These forward-looking statements may include, among other things, statements or assumptions relating to: our expected results of operations; the accuracy of data relating to, and anticipated levels of, future inventory and gross margins; anticipated cash requirements and sources; our convertible senior notes issued in April 2019, including our ability to settle the liability in cash; cost containment efforts; estimated charges; plans regarding store openings, closings, remodels and lease negotiations; effects of doing business outside of the United States, including, without limitations, exchange rate fluctuations, inflation, changes to import duties, tariffs and quotas, political and economic instability and terrorism; effects of the pending exit of the United Kingdom from the European Union; plans to improve the efficiency and effectiveness of the Company’s European distribution centers; plans regarding business growth, international expansion and capital allocation; plans regarding supply chain efficiencies and global planning and allocation; e-commerce, digital and omni-channel initiatives; business seasonality; results and risks of current and future legal proceedings; industry trends; consumer demands and preferences; competition; currency fluctuations and related impacts; estimated tax rates, including the impact of the 2017 Tax Cuts and Jobs Act (“Tax Reform”), future clarifications and legislative amendments thereto, as well as our ability to accurately interpret and predict its impact on our cash flows and financial condition; results of tax audits and other regulatory proceedings; the impact of recent accounting pronouncements; raw material and other inflationary cost pressures; consumer confidence; and general economic conditions. We do not intend, and undertake no obligation, to update our forward-looking statements to reflect future events or circumstances. Such statements involve risks and uncertainties, which may cause actual results to differ materially from those set forth in these statements. Important factors that could cause or contribute to such differences include those discussed under “Part I, Item 1A. Risk Factors” contained in the Company’s most recent Annual Report on Form 10-K for the fiscal year ended February 2, 2019, under “Part II, Item 1A. Risk Factors” contained herein and in our other filings made from time-to-time with the Securities and Exchange Commission (“SEC”) after the date of this report.

### ***Business Segments***

The Company’s businesses are grouped into five reportable segments for management and internal financial reporting purposes: Americas Retail, Americas Wholesale, Europe, Asia and Licensing. Management evaluates segment performance based primarily on revenues and earnings (loss) from operations before corporate performance-based compensation costs, asset impairment charges, net gains (losses) on lease terminations, restructuring charges and certain non-recurring charges, if any. The Americas Retail segment includes the Company’s retail and e-commerce operations in the Americas. The Americas Wholesale segment includes the

Company's wholesale operations in the Americas. 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 and the Pacific. 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, asset impairment charges, net gains (losses) on lease terminations, restructuring charges and certain non-recurring charges, if any. Corporate overhead costs are presented separately and generally include, among other things, the following unallocated corporate costs: accounting and finance, executive compensation, corporate performance-based compensation, facilities, global advertising and marketing, human resources, information technology and legal. Information regarding these segments is summarized in "Part I, Item 1. Financial Statements – Note 8 – Segment Information."

### ***Products***

We derive our net revenue from the sale of GUESS?, G by GUESS (GbG), GUESS Kids and MARCIANO apparel and our licensees' products through our worldwide network of directly-operated and licensed retail stores, wholesale customers and distributors, as well as our online sites. We also derive royalty revenue from worldwide licensing activities.

### ***Foreign Currency Volatility***

Since the majority of our international operations are conducted in currencies other than the U.S. dollar (primarily the Canadian dollar, Chinese yuan, euro, Japanese yen, Korean won, Mexican peso, Russian rouble and Turkish lira), currency fluctuations can have a significant impact on the translation of our international revenues and earnings (loss) into U.S. dollar amounts.

Some of our transactions that occur primarily in Europe, Canada, South Korea, China, Hong Kong and Mexico are denominated in U.S. dollars, Swiss francs, British pounds and Russian roubles, exposing them to exchange rate fluctuations when these transactions (such as inventory purchases or periodic lease payments) are converted to their functional currencies. As a result, fluctuations in exchange rates can impact the operating margins of our foreign operations and reported earnings (loss), and are largely dependent on the transaction timing and magnitude during the period that the currency fluctuates. In addition, we have certain real estate leases which are denominated in a currency other than the functional currency of the respective entity that entered into the agreement (primarily Swiss francs, Russian roubles and Polish zloty). As a result, the Company may be exposed to volatility related to unrealized gains or losses on the translation of present value of future lease payment obligations when translated at the exchange rate as of a reporting period-end. When these foreign exchange rates weaken versus the U.S. dollar at the time of the respective U.S. dollar denominated payment is made relative to the payments made in the comparable period, our margins could be unfavorably impacted.

During the first nine months of fiscal 2020, the average U.S. dollar rate was stronger against the Canadian dollar, Chinese yuan, euro, Korean won, Mexican peso, Russian rouble and Turkish lira and weaker against the Japanese yen compared to the average rate in the same prior-year period. This had an overall unfavorable impact on the translation of our international revenues and earnings from operations for the nine months ended November 2, 2019 compared to the same prior-year period.

If the U.S. dollar strengthens relative to the respective fiscal 2019 foreign exchange rates, foreign exchange could negatively impact our revenues and operating results, as well as our international cash and other balance sheet items, during the remainder of fiscal 2020, particularly in Canada, Europe (primarily the euro, Turkish lira and Russian rouble) and Mexico. Alternatively, if the U.S. dollar weakens relative to the respective fiscal 2019 foreign exchange rates, our revenues and operating results, as well as our other cash balance sheet items, could be positively impacted by foreign currency fluctuations during the remainder of fiscal 2020, particularly in these regions.

The Company enters into derivative financial instruments to offset some, but not all, of the exchange risk on foreign currency transactions. For additional discussion regarding our exposure to foreign currency risk, forward contracts designated as hedging instruments and forward contracts not designated as hedging instruments, refer to "Item 3. Quantitative and Qualitative Disclosures About Market Risk."



## **Recent Developments**

On February 20, 2019, Carlos Alberini began his service as the Company's Chief Executive Officer and member of the Board, replacing Victor Herrero, who separated from the Company on February 2, 2019. Mr. Alberini previously served as President and Chief Operating Officer of the Company from 2000 to 2010. From 2010 until 2014, Mr. Alberini was Co-CEO of Restoration Hardware and at present, remains a Director on the Board of Restoration Hardware. From 2014 until February 2019, Mr. Alberini served as the Chairman and CEO of Lucky Brand.

Mr. Alberini has finalized his strategic vision and implementation plan for execution with our leadership team and has identified several key priorities to drive revenue and operating profit growth over the next five years. These priorities are: (i) brand relevancy; (ii) customer centricity; (iii) global footprint; (iv) product excellence; and (v) functional capabilities; each as further described below:

**Brand Relevancy.** We plan to optimize our brand architecture to be relevant with our three target consumer groups: Heritage, Millennials, and Generation Z. We will continue to execute celebrity and influencer partnerships and collaborations as we believe that they are critical to engage more effectively with a younger and broader audience.

**Customer Centricity.** We intend to place the customer at the center of everything we do. We plan to implement processes and platforms to provide our customers with a seamless omni-channel experience.

**Global Footprint.** We will continue to expand the reach of our brands by optimizing the productivity and profitability of our current footprint and expanding our distribution channels.

**Product Excellence.** We will extend our product offering to provide our customers with products for the different occasions of their lifestyles. We will seek to better address local product needs.

**Functional Capabilities.** We expect to drive material operational improvements in the next five years to leverage and support our global business more effectively, primarily in the areas of logistics, sourcing, product development and production, inventory management, and overall infrastructure.

## **Capital Allocation**

We plan to continue to prioritize capital allocation toward investments that support growth and infrastructure, while remaining highly disciplined in the way we allocate capital across projects, including new store development, store remodels, technology investments and others. When we prioritize investments, we will focus on their strategic significance and their return on invested capital expectations. We also plan to manage product buys and inventory ownership rigorously and optimize overall working capital management consistently.

During the first quarter of fiscal 2020, the Company announced that its Board of Directors reduced the future quarterly cash dividends that may be paid to holders of the Company's common stock, when, as and if any such dividend is declared by the Company's Board of Directors, from \$0.225 per share to \$0.1125 per share to redeploy capital and return incremental value to shareholders through share repurchases. In April 2019, the Company issued \$300 million aggregate principal amount of 2.00% convertible senior notes due 2024 in a private offering. During the first quarter of fiscal 2020, the Company used \$170 million of proceeds from its convertible senior notes to enter into an accelerated share repurchase program ("ASR"). The Company also repurchased shares of its common stock in open market and privately negotiated transactions totaling \$110.6 million during the first nine months of fiscal 2020.

The Company's investments in capital for the full fiscal year 2020 are planned between \$63 million and \$68 million. The planned investments in capital are related primarily to retail and e-commerce expansion in Europe and Asia, existing store remodeling programs as well as continued investments in technology to support our long-term growth plans.

## **Comparable Sales**

The Company reports National Retail Federation calendar comparable sales on a quarterly basis for our retail businesses which include the combined results from our brick-and-mortar retail stores and our e-commerce sites.

We also separately report the impact of e-commerce sales on our comparable sales metric. As a result of our omni-channel strategy, our e-commerce business has become strongly intertwined with our brick-and-mortar retail store business. Therefore, we believe that the inclusion of e-commerce sales in our comparable sales metric provides a more meaningful representation of our retail results.

Sales from our brick-and-mortar retail stores include purchases that are initiated, paid for and fulfilled at our retail stores and directly-operated concessions as well as merchandise that is reserved online but paid for and picked-up at our retail stores. Sales from our e-commerce sites include purchases that are initiated and paid for online and shipped from either our distribution centers or our retail stores as well as purchases that are initiated in a retail store, but due to inventory availability at the retail store, are ordered and paid for online and shipped from our distribution centers or picked-up from a different retail store.

Store sales are considered comparable after the store has been open for 13 full months. If a store remodel results in a square footage change of more than 15%, or involves a relocation or a change in store concept, the store sales are removed from the comparable store base until the store has been opened at its new size, in its new location or under its new concept for 13 full months. E-commerce sales are considered comparable after the online site has been operational in a country for 13 full months and exclude any related revenue from shipping fees.

Definitions and calculations of comparable sales used by the Company may differ from similarly-titled measures reported by other companies.

### ***Other***

The Company operates on a 52/53-week fiscal year calendar, which ends on the Saturday nearest to January 31 of each year. The nine months ended November 2, 2019 had the same number of days as the nine months ended November 3, 2018.

## **Executive Summary**

### ***Overview***

Net earnings attributable to Guess?, Inc. increased 192.4% to \$12.4 million, or diluted earnings of \$0.18 per common share, for the quarter ended November 2, 2019, compared to net loss attributable to Guess?, Inc. of \$13.4 million, or diluted loss of \$0.17 per common share, for the quarter ended November 3, 2018.

During the quarter ended November 2, 2019, the Company recognized \$1.8 million of asset impairment charges; \$2.4 million of amortization of debt discount related to the Company's convertible senior notes; and a net credit of \$1.4 million of certain professional services and legal fees and related credits (or a combined \$2.5 million negative impact after considering the related tax benefit of these adjustments of \$0.4 million), or an unfavorable \$0.04 per share impact. Excluding the impact of these items, adjusted net earnings attributable to Guess?, Inc. were \$14.9 million and adjusted diluted earnings were \$0.22 per common share for the quarter ended November 2, 2019. During the quarter ended November 3, 2018, the Company recognized charges of \$42.4 million related to the European Commission fine; \$1.3 million of asset impairment charges; and \$0.1 million of certain professional services and legal fees and related costs (or a combined \$24.0 million negative impact after considering the related tax benefit of these adjustments of \$0.2 million and income tax benefits of \$19.6 million related to changes in the provisional amounts recorded related to the Tax Reform), or an unfavorable \$0.30 per share impact. Excluding the impact of these items, adjusted net earnings attributable to Guess?, Inc. were \$10.6 million and adjusted diluted earnings were \$0.13 per common share for the quarter ended November 3, 2018. References to financial results excluding the impact of these items are non-GAAP measures and are addressed below under "Non-GAAP Measures."

Highlights of the Company's performance for the quarter ended November 2, 2019 compared to the same prior-year period are presented below, followed by a more comprehensive discussion under "Results of Operations":

### ***Operations***

- Total net revenue increased 1.7% to \$615.9 million for the quarter ended November 2, 2019, compared to \$605.4 million in the same prior-year quarter. In constant currency, net revenue increased by 4.2%.
- Gross margin (gross profit as a percentage of total net revenue) increased 90 basis points to 37.3% for the quarter ended November 2, 2019, compared to 36.4% in the same prior-year period.
- Selling, general and administrative ("SG&A") expenses as a percentage of total net revenue ("SG&A rate") increased 50 basis points to 33.3% for the quarter ended November 2, 2019, compared to 32.8% in the same prior-year period. SG&A expenses increased 3.6% to \$205.0 million for the quarter ended November 2, 2019, compared to \$197.9 million in the same prior-year period.
- During the quarter ended November 3, 2018, the Company recognized charges of €37.0 million (\$42.4 million) related to an estimated fine imposed on the Company by the European Commission related to its inquiry concerning possible violations of certain European Union competition rules by the Company. In December of fiscal 2019, the European Commission concluded its investigation and imposed a cumulative fine of €39.8 million (\$45.6 million), which the Company paid in the first quarter of fiscal 2020.
- During the quarter ended November 2, 2019, the Company recognized asset impairment charges of \$1.8 million, compared to \$1.3 million in the same prior-year period.
- Operating margin increased 730 basis points to 3.7% for the quarter ended November 2, 2019, compared to negative 3.6% in the same prior-year period. The European Commission fine unfavorably impacted operating margin by 700 basis points during the quarter ended November 3, 2018. Lower expenses related to certain professional service and legal fees and related (credits) costs favorably impacted operating margin by 40 basis points during the quarter ended November 2, 2019 compared to the same prior-year period. Higher asset impairment charges unfavorably impacted operating margin by 10 basis points during the quarter ended November 2, 2019 compared to the same prior-year period. Earnings from operations increased 205.3% to \$22.6 million for the quarter ended November 2, 2019, compared to loss from operations of \$21.5 million in the same prior-year period.
- Other expense, net (including interest income and expense), totaled \$4.5 million for the quarter ended November 2, 2019, compared to \$5.8 million in the same prior-year period.
- The effective income tax rate changed to 25.1% for the quarter ended November 2, 2019, compared to 53.1% in the same prior-year period. During the quarter ended November 3, 2018, the Company revised the provisional amounts previously recorded related to impact of the Tax Reform, and recorded income tax benefits of \$19.6 million.

### ***Key Balance Sheet Accounts***

- The Company had \$110.1 million in cash and cash equivalents and \$0.5 million in restricted cash as of November 2, 2019, compared to \$138.9 million in cash and cash equivalents and \$0.5 million in restricted cash at November 3, 2018.
  - During fiscal 2019, the Company recognized cumulative charges of €39.8 million (\$45.6 million) for a fine imposed by the European Commission related to alleged violations of European Union competition rules by the Company. The Company paid the full amount of the fine during the three months ended May 4, 2019.
  - In April 2019, the Company issued \$300 million aggregate principal amount of 2.00% convertible senior notes due 2024 in a private offering, for which it received total cash proceeds of \$296.2 million, net of the initial purchasers' discounts and commissions and offering costs

of \$3.8 million. In connection with the issuance of these notes, the Company (i) entered into convertible note hedge transactions for which it paid an aggregate \$61.0 million and (ii) sold warrants for which it received aggregate proceeds of \$28.1 million. These transactions are intended to reduce the potential dilution with respect to the Company's common stock upon conversion of the notes and/or offset any cash payments the Company may be required to make in excess of the principal amount of the converted notes.

- During the three months ended May 4, 2019, the Company used \$170 million of proceeds from its convertible senior notes to enter into an ASR, pursuant to which it received up front approximately 5.2 million shares (representing approximately \$102 million (or 60%) of the \$170 million notional amount of the ASR). The Company received a final delivery of an additional 5.4 million shares under the ASR during the three months ended November 2, 2019. During the nine months ended November 2, 2019, the Company also repurchased approximately 5.8 million shares of its common stock in open market and privately negotiated transactions totaling \$110.6 million (including commissions), of which approximately 0.7 million shares were repurchased at an aggregate cost of \$11.0 million during the three months ended August 3, 2019 and approximately 5.1 million shares were repurchased at an aggregate cost of \$99.6 million during the three months ended May 4, 2019. Combined, these transactions resulted in the repurchase of approximately 16.4 million shares for \$280.6 million during the nine months ended November 2, 2019. During the nine months ended November 3, 2018, the Company invested \$17.6 million to repurchase approximately 1.1 million of its common shares. 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.
- The Company, through its subsidiaries in Europe and China, maintains short-term committed and uncommitted borrowing agreements primarily for working capital purposes. The Company had \$33.0 million in outstanding borrowings as of November 2, 2019 and no outstanding borrowings under these borrowing agreements as of November 3, 2018.
- 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. Accounts receivable increased by \$14.1 million, or 4.9%, to \$300.2 million as of November 2, 2019, compared to \$286.1 million at November 3, 2018. On a constant currency basis, accounts receivable increased by \$18.5 million, or 6.5%, when compared to November 3, 2018.
- Inventory decreased by \$28.6 million, or 5.2%, to \$519.9 million as of November 2, 2019, compared to \$548.5 million at November 3, 2018. On a constant currency basis, inventory decreased by \$23.4 million, or 4.3%, when compared to November 3, 2018.
- During the first quarter of fiscal 2020, the Company adopted a comprehensive new lease standard which superseded previous lease guidance. The standard requires a lessee to recognize an asset related to the right to use the underlying asset and a liability that approximates the present value of the lease payments over the term of contracts that qualify as leases under the new guidance. As of November 2, 2019, the operating lease right-of-use assets totaled \$874.9 million and the operating lease liabilities totaled \$930.1 million. Refer to "Part I, Item 1. Financial Statements – Note 2– Lease Accounting" for further information.

## Global Store Count

In the third quarter of fiscal 2020, together with our partners, we opened 31 new stores worldwide, consisting of 18 stores in Europe and the Middle East, eight stores in Asia and the Pacific, two stores in Canada, two stores in U.S. and one store in Central and South America. Together with our partners, we closed 12 stores worldwide, consisting of nine stores in Asia and the Pacific, two stores in the U.S. and one store in Europe and the Middle East.

We ended the third quarter of fiscal 2020 with 1,743 stores and 395 concessions worldwide, comprised as follows:

Region	Stores			Concessions		
	Total	Directly-Operated	Partner Operated	Total	Directly-Operated	Partner Operated
United States	287	285	2	1	—	1
Canada	82	82	—	—	—	—
Central and South America	112	72	40	27	27	—
Total Americas	481	439	42	28	27	1
Europe and the Middle East	743	516	227	40	40	—
Asia and the Pacific	519	219	300	327	154	173
Total	1,743	1,174	569	395	221	174

Of the total 1,743 stores, 1,427 were GUESS? stores, 201 were GUESS? Accessories stores, 70 were G by GUESS (GbG) stores and 45 were MARCIANO stores.

## Results of Operations

### Three Months Ended November 2, 2019 and November 3, 2018

#### **Consolidated Results**

**Net Revenue.** Net revenue increased by \$10.5 million, or 1.7%, to \$615.9 million for the quarter ended November 2, 2019, compared to \$605.4 million for the quarter ended November 3, 2018. In constant currency, net revenue increased by 4.2% as currency translation fluctuations relating to our foreign operations unfavorably impacted net revenue by \$14.8 million compared to the same prior-year period. The increase was driven primarily by higher wholesale shipments in Europe and, to a lesser extent, retail expansion in our international markets, partially offset by the impact of negative comparable sales in Asia and Americas Retail.

**Gross Margin.** Gross margin increased 90 basis points to 37.3% for the quarter ended November 2, 2019, compared to 36.4% in the same prior-year period, which was driven primarily by a lower occupancy rate due mainly to lower logistics costs in Europe and, to a lesser extent, the favorable impact from segment mix and leveraging of occupancy costs in Europe.

**Gross Profit.** Gross profit increased by \$9.4 million, or 4.2%, to \$229.5 million for the quarter ended November 2, 2019, compared to \$220.1 million in the same prior-year period. The increase in gross profit, which included the unfavorable impact of currency translation, was due primarily to the favorable impact on gross profit from higher revenue and, to a lesser extent, lower occupancy costs. Currency translation fluctuations relating to our foreign operations unfavorably impacted gross profit by \$5.6 million.

The Company includes inbound freight charges, purchasing costs and related overhead, retail store occupancy costs, including lease costs and depreciation and amortization, and a portion of the Company's distribution costs related to its retail business in cost of product sales. The Company also includes net royalties received on the Company's inventory purchases of licensed product as a reduction to cost of product sales. The Company's gross margin may not be comparable to that of other entities since some entities include all of the costs related to their distribution in cost of product sales and others, like the Company, generally exclude wholesale-related distribution costs from gross margin, including them instead in SG&A expenses. Additionally, some entities include retail

store occupancy costs in SG&A expenses and others, like the Company, include retail store occupancy costs in cost of product sales.

**SG&A Rate.** The Company's SG&A rate increased 50 basis points to 33.3% for the quarter ended November 2, 2019, compared to 32.8% in the same prior-year period. The Company's SG&A rate included the favorable impact of 40 basis points from lower expenses related to certain professional service and legal fees and related (credits) costs, which the Company otherwise would not have incurred as part of its business operations compared to the same prior-year period. Excluding these amounts, the Company's SG&A rate would have increased 90 basis points due primarily to higher corporate investments during the quarter ended November 2, 2019 compared to the same prior-year period.

**SG&A Expenses.** SG&A expenses increased by \$7.1 million, or 3.6%, to \$205.0 million for the quarter ended November 2, 2019, compared to \$197.9 million in the same prior-year period. The increase, which included the favorable impact of currency translation, was driven primarily by higher corporate investments. Currency translation fluctuations relating to our foreign operations favorably impacted SG&A expenses by \$4.7 million.

**European Commission Fine.** During the quarter ended November 3, 2018, the Company recognized charges of €37.0 million (\$42.4 million) related to an estimated fine imposed on the Company by the European Commission related to its inquiry concerning possible violations of certain European Union competition rules by the Company. In December of fiscal 2019, the European Commission concluded its investigation and imposed a cumulative fine of €39.8 million (\$45.6 million), which the Company paid in the first quarter of fiscal 2020.

**Asset Impairment Charges.** During the quarter ended November 2, 2019, the Company recognized asset impairment charges of \$1.8 million, compared to \$1.3 million in the same prior-year period. The increase in asset impairment charges was due primarily to higher impairment of certain retail locations in Europe and, to a lesser extent, Asia during the quarter ended November 2, 2019 compared to the same prior-year period.

**Operating Margin.** Operating margin improved 730 basis points to 3.7% for the quarter ended November 2, 2019, compared to negative 3.6% in the same prior-year period. The European Commission fine unfavorably impacted operating margin by 700 basis points during the quarter ended November 3, 2018. Lower expenses related to certain professional service and legal fees and related (credits) costs favorably impacted operating margin by 40 basis points during the quarter ended November 2, 2019 compared to the same prior-year period. Higher asset impairment charges negatively impacted operating margin by 10 basis points during the quarter ended November 2, 2019 compared to the same prior-year period. Excluding the impact of these expenses, the Company's operating margin would have been flat compared to the same prior-year period. The negative impact of currency on operating margin for the quarter was approximately 10 basis points.

**Earnings (Loss) from Operations.** Earnings from operations increased by \$44.2 million, or 205.3%, to \$22.6 million for the quarter ended November 2, 2019, compared to loss from operations of \$21.5 million in the same prior-year period. Currency translation fluctuations relating to our foreign operations unfavorably impacted earnings from operations by \$0.9 million.

**Interest Expense, Net.** Interest expense, net, was \$4.5 million for the quarter ended November 2, 2019, compared to a minimal amount for the quarter ended November 3, 2018. The increase in interest expense was due primarily to \$2.4 million in amortization of debt discount and higher interest expense related to the Company's convertible senior notes during the quarter ended November 2, 2019 and, to a lesser extent, gains related to the impact of hedge ineffectiveness of foreign exchange currency contracts designated as cash flow hedges recognized during the quarter ended November 3, 2018. As a result of the adoption of new guidance during the first quarter of fiscal 2020, there was no interest component recognized related to hedge ineffectiveness during the quarter ended November 2, 2019.

**Other Expense, Net.** Other expense, net, was \$0.1 million for the quarter ended November 2, 2019, an improvement of \$5.7 million, compared to \$5.8 million in the same prior-year period. The change was driven

primarily by net unrealized gains on non-operating assets as well as net unrealized mark-to-market revaluation gains on foreign currency balances compared to net unrealized and realized losses in the same prior-year quarter, partially offset by our proportionate share of net losses related to our minority investment in a privately-held apparel company during the quarter ended November 2, 2019 compared to the same prior-year period.

**Income Tax Expense (Benefit).** Income tax expense for the quarter ended November 2, 2019 was \$4.5 million, or a 25.1% effective tax rate, compared to an income tax benefit of \$14.5 million, or a 53.1% effective tax rate, in the same prior-year period. Generally, income taxes for the interim periods are computed using the tax rate estimated to be applicable for the full fiscal year, adjusted for discrete items, which is subject to ongoing review and evaluation by management. The change in the effective income tax rate during the quarter ended November 2, 2019 was due primarily to the revision of provisional amounts recorded related to the impact of the Tax Reform during the quarter ended November 3, 2018, partially offset by a shift in the distribution of earnings among the Company's tax jurisdictions within the quarters of the current fiscal year.

**Net Earnings Attributable to Noncontrolling Interests.** Net earnings attributable to noncontrolling interests were \$1.2 million, net of taxes, for the quarter ended November 2, 2019, compared to \$0.6 million, net of taxes, for the quarter ended November 3, 2018.

**Net Earnings (Loss) Attributable to Guess?, Inc.** Net earnings attributable to Guess?, Inc. increased by \$25.9 million, or 192.4%, to \$12.4 million for the quarter ended November 2, 2019, compared to net loss attributable to Guess?, Inc. of \$13.4 million in the same prior-year period. Diluted earnings per share increased to \$0.18 for the quarter ended November 2, 2019, compared to diluted loss per share of \$0.17 in the same prior-year period. We estimate that the unfavorable impact from additional interest expense recognized related to the convertible senior notes offset by the favorable impact from share repurchases had a net negative impact of \$0.01 on diluted earnings per share for the quarter ended November 2, 2019. We also estimate that the positive impact of currency on diluted earnings per share for the quarter ended November 2, 2019 was approximately \$0.04 per share. During the quarter ended November 2, 2019, the Company recognized \$1.8 million of asset impairment charges; \$2.4 million of amortization of debt discount related to the Company's convertible senior notes; and a net credit of \$1.4 million of certain professional services and legal fees and related credits (or a combined \$2.5 million negative impact after considering the related tax benefit and adjustments to uncertain tax positions excluded from results in prior years totaling \$0.4 million), or an unfavorable \$0.04 per share impact. Excluding the impact of these items, adjusted net earnings attributable to Guess?, Inc. were \$14.9 million and adjusted diluted earnings were \$0.22 per common share for the quarter ended November 2, 2019. We estimate that the favorable impact from share repurchases offset by the unfavorable impact from additional interest expense recognized related to the convertible senior notes had a net positive impact of \$0.02 on adjusted diluted earnings per share for the quarter ended November 2, 2019. During the quarter ended November 3, 2018, the Company recognized charges of \$42.4 million related to the European Commission fine; \$1.3 million of asset impairment charges; and \$0.1 million of certain professional services and legal fees and related costs (or a combined \$24.0 million negative impact after considering the related tax benefit of these adjustments of \$0.2 million and income tax benefits of \$19.6 million related to changes in the provisional amounts recorded related to the Tax Reform), or an unfavorable \$0.30 per share impact. Excluding the impact of these items, adjusted net earnings attributable to Guess?, Inc. were \$10.6 million and adjusted diluted earnings were \$0.13 per common share for the quarter ended November 3, 2018. References to financial results excluding the impact of these items are non-GAAP measures and are addressed below under "Non-GAAP Measures."

## Information by Business Segment

The following table presents our net revenue and earnings (loss) from operations by segment for the three months ended November 2, 2019 and November 3, 2018 (dollars in thousands):

	<b>Three Months Ended</b>		<b>\$ Change</b>	<b>% Change</b>
	<b>Nov 2, 2019</b>	<b>Nov 3, 2018</b>		
<b>Net revenue:</b>				
Americas Retail	\$ 177,824	\$ 186,925	\$ (9,101)	(4.9%)
Americas Wholesale	56,398	52,698	3,700	7.0%
Europe	277,253	254,037	23,216	9.1%
Asia	82,261	89,461	(7,200)	(8.0%)
Licensing	22,208	22,286	(78)	(0.3%)
Total net revenue	<u>\$ 615,944</u>	<u>\$ 605,407</u>	<u>\$ 10,537</u>	1.7%
<b>Earnings (loss) from operations:</b>				
Americas Retail	\$ 1,601	\$ 3,799	\$ (2,198)	(57.9%)
Americas Wholesale	11,216	10,392	824	7.9%
Europe	19,475	7,410	12,065	162.8%
Asia	(2,432)	1,938	(4,370)	(225.5%)
Licensing	19,372	19,485	(113)	(0.6%)
Total segment earnings from operations	49,232	43,024	6,208	14.4%
Corporate overhead	(24,736)	(20,824)	(3,912)	18.8%
European Commission fine	—	(42,428)	42,428	
Asset impairment charges	(1,847)	(1,277)	(570)	44.6%
Total earnings (loss) from operations	<u>\$ 22,649</u>	<u>\$ (21,505)</u>	<u>\$ 44,154</u>	205.3%
<b>Operating margins:</b>				
Americas Retail	0.9%	2.0%		
Americas Wholesale	19.9%	19.7%		
Europe	7.0%	2.9%		
Asia	(3.0%)	2.2%		
Licensing	87.2%	87.4%		
Total Company	3.7%	(3.6%)		

### *Americas Retail*

Net revenue from our Americas Retail segment decreased by \$9.1 million, or 4.9%, to \$177.8 million for the quarter ended November 2, 2019, from \$186.9 million in the same prior-year period. In constant currency, net revenue decreased by 4.5%, driven primarily by negative comparable sales and, to a lesser extent, net store closures. Comparable sales (including e-commerce) decreased 3% in U.S. dollars and constant currency. The inclusion of our e-commerce sales had a minimal impact on the comparable sales percentage in U.S. dollars and constant currency. The store base for the U.S. and Canada decreased by an average of 17 net stores during the quarter ended November 2, 2019 compared to the same prior-year period, resulting in a 3.7% net decrease in average square footage. Currency translation fluctuations relating to our non-U.S. retail stores and e-commerce sites had a negative impact of \$0.7 million on net revenue during the quarter ended November 2, 2019.

Operating margin decreased 110 basis points to 0.9% for the quarter ended November 2, 2019, from 2.0% in the same prior-year quarter, due primarily to a higher SG&A rate, partially offset by higher gross margins. The higher SG&A rate was driven primarily by the unfavorable impact from negative comparable sales and, to a lesser extent, higher store selling expenses due primarily to wage pressures. The higher gross margins were due primarily to higher initial markups and, to a lesser extent, lower occupancy costs, partially offset by higher markdowns.

Earnings from operations from our Americas Retail segment decreased by \$2.2 million, or 57.9%, to \$1.6 million for the quarter ended November 2, 2019, from \$3.8 million in the same prior-year period. The decrease is primarily due to the unfavorable impact on earnings from lower revenue, partially offset by lower occupancy costs.



### ***Americas Wholesale***

Net revenue from our Americas Wholesale segment increased by \$3.7 million, or 7.0%, to \$56.4 million for the quarter ended November 2, 2019, compared to \$52.7 million in the same prior-year period. In constant currency, net revenue increased by 8.1%, driven primarily by higher shipments in our U.S. wholesale business. Currency translation fluctuations relating to our non-U.S. wholesale businesses had a negative impact of \$0.6 million on net revenue during the quarter ended November 2, 2019.

Operating margin increased 20 basis points to 19.9% for the quarter ended November 2, 2019, compared to 19.7% in the same prior-year quarter.

Earnings from operations from our Americas Wholesale segment increased by \$0.8 million, or 7.9%, to \$11.2 million for the quarter ended November 2, 2019, compared to \$10.4 million in the same prior-year period. The increase reflects the favorable impact on earnings from higher revenue.

### ***Europe***

Net revenue from our Europe segment increased by \$23.2 million, or 9.1%, to \$277.3 million for the quarter ended November 2, 2019, compared to \$254.0 million in the same prior-year period. In constant currency, net revenue increased by 13.2%, driven primarily by higher wholesale shipments and, to a lesser extent, retail expansion and positive comparable sales. As of November 2, 2019, we directly operated 516 stores in Europe compared to 460 stores at November 3, 2018, excluding concessions, which represents a 12.2% increase over the same prior-year period. Comparable sales (including e-commerce) increased 1% in U.S. dollars and 5% in constant currency compared to the same prior-year period. The inclusion of our e-commerce sales increased the comparable sales percentage by 3% in U.S. dollars and constant currency. Currency translation fluctuations relating to our European operations unfavorably impacted net revenue by \$10.4 million.

Operating margin increased 410 basis points to 7.0% for the quarter ended November 2, 2019, compared to 2.9% in the same prior-year quarter, driven primarily by higher gross margins and, to a lesser extent, a lower SG&A rate. The higher gross margins were due primarily to higher initial markups and, to a lesser extent, lower markdowns and lower logistics costs. The lower SG&A rate was driven primarily by lower logistics costs and, to a lesser extent, overall leveraging of expenses.

Earnings from operations from our Europe segment increased by \$12.1 million, or 162.8%, to \$19.5 million for the quarter ended November 2, 2019, compared to \$7.4 million in the same prior-year period, driven primarily by the favorable impact on earnings from higher revenue and, to a lesser extent, higher product margins. Currency translation fluctuations relating to our European operations unfavorably impacted earnings from operations by \$0.7 million.

### ***Asia***

Net revenue from our Asia segment decreased by \$7.2 million, or 8.0%, to \$82.3 million for the quarter ended November 2, 2019, compared to \$89.5 million in the same prior-year period. In constant currency, net revenue decreased by 4.6%, driven primarily by negative comparable sales, partially offset by retail expansion. Comparable sales (including e-commerce) decreased 21% in U.S. dollars and 19% in constant currency. The inclusion of our e-commerce sales decreased the comparable sales percentage by 1% in U.S. dollars and 2% in constant currency. As of November 2, 2019, we and our partners operated 519 stores and 327 concessions in Asia, compared to 515 stores and 365 concessions at November 3, 2018. As of November 2, 2019, we directly operated 219 stores and 154 concessions in Asia, compared to 198 directly-operated stores and 174 concessions at November 3, 2018. Currency translation fluctuations relating to our Asian operations unfavorably impacted net revenue by \$3.1 million.

Operating margin deteriorated 520 basis points to negative 3.0% for the quarter ended November 2, 2019, from 2.2% in the same prior-year quarter, driven primarily by lower gross margins and, to a lesser extent, a higher SG&A rate. The lower gross margins were due primarily to higher markdowns and, to a lesser extent, overall deleveraging of occupancy costs due mainly to negative comparable sales. The higher SG&A rate was driven primarily by overall deleveraging of expenses due to negative comparable sales.

Loss from operations from our Asia segment was \$2.4 million for the quarter ended November 2, 2019, compared to earnings from operations of \$1.9 million in the same prior-year period. The deterioration was driven primarily by the unfavorable impact on earnings from lower revenue and, to a lesser extent, lower gross margins.

### ***Licensing***

Net royalty revenue from our Licensing segment decreased by \$0.1 million, or 0.3%, to \$22.2 million for the quarter ended November 2, 2019, compared to \$22.3 million in the same prior-year period.

Earnings from operations from our Licensing segment decreased by \$0.1 million, or 0.6%, to \$19.4 million for the quarter ended November 2, 2019, compared to \$19.5 million in the same prior-year period. The decrease was driven by the unfavorable impact to earnings from lower revenue.

### ***Corporate Overhead***

Unallocated corporate overhead increased by \$3.9 million to \$24.7 million for the quarter ended November 2, 2019, compared to \$20.8 million in the same prior-year period, due primarily to higher corporate investments, partially offset by lower expenses related to certain professional service and legal fees and related (credits) costs.

### **Nine Months Ended November 2, 2019 and November 3, 2018**

#### ***Consolidated Results***

***Net Revenue.*** Net revenue increased by \$63.3 million, or 3.6%, to \$1.84 billion for the nine months ended November 2, 2019, compared to \$1.77 billion for the nine months ended November 3, 2018. In constant currency, net revenue increased by 7.1% as currency translation fluctuations relating to our foreign operations unfavorably impacted net revenue by \$61.9 million compared to the same prior-year period. The increase was driven primarily by retail expansion in our international markets and, to a lesser extent, higher wholesale shipments in Europe and the U.S.

***Gross Margin.*** Gross margin increased 120 basis points to 36.9% for the nine months ended November 2, 2019, compared to 35.7% in the same prior-year period, of which 80 basis points was due to a lower occupancy rate and 40 basis points was due to higher product margins. The lower occupancy rate was due primarily to lower logistics costs in Europe and, to a lesser extent, the favorable impact from segment mix. The higher product margins were driven primarily by higher initial markups in Europe and Americas Retail.

***Gross Profit.*** Gross profit increased by \$43.6 million, or 6.9%, to \$677.1 million for the nine months ended November 2, 2019, compared to \$633.5 million in the same prior-year period. The increase in gross profit, which included the unfavorable impact of currency translation, was due primarily to the favorable impact on gross profit from higher revenue and, to a lesser extent, higher gross margins. Currency translation fluctuations relating to our foreign operations unfavorably impacted gross profit by \$21.8 million.

***SG&A Rate.*** The Company's SG&A rate increased 40 basis points to 34.2% for the nine months ended November 2, 2019, compared to 33.8% in the same prior-year period. The Company's SG&A rate included the favorable impact of 40 basis points from lower expenses related to certain professional service and legal fees and related (credits) costs, which the Company otherwise would not have incurred as part of its business operations compared to the same prior-year period. Excluding these amounts, the Company's SG&A rate would have increased 70 basis points due primarily to higher corporate investments during the nine months ended November 2, 2019 compared to the same prior-year period, partially offset by leveraging of expenses, mainly in Europe.

***SG&A Expenses.*** SG&A expenses increased by \$27.1 million, or 4.5%, to \$627.8 million for the nine months ended November 2, 2019, compared to \$600.7 million in the same prior-year period. The increase, which included the favorable impact of currency translation, was driven primarily by higher store selling expenses and, to a lesser extent, higher payroll costs. Currency translation fluctuations relating to our foreign operations favorably impacted SG&A expenses by \$20.6 million.

***European Commission Fine.*** During the nine months ended November 3, 2018, the Company recognized charges of €37.0 million (\$42.4 million) related to an estimated fine imposed on the Company by the European Commission

related to its inquiry concerning possible violations of certain European Union competition rules by the Company. In December of fiscal 2019, the European Commission concluded its investigation and imposed a cumulative fine of €39.8 million (\$45.6 million), which the Company paid in the first quarter of fiscal 2020.

**Asset Impairment Charges.** During the nine months ended November 2, 2019, the Company recognized asset impairment charges of \$5.1 million, compared to \$5.0 million in the same prior-year period. Currency translation fluctuations relating to our foreign operations favorably impacted asset impairment charges by \$0.2 million.

**Net Gains on Lease Terminations.** There were no net gains on lease terminations recorded during the nine months ended November 2, 2019. During the nine months ended November 3, 2018, the Company recorded net gains on lease terminations of \$0.2 million related primarily to the early termination of certain lease agreements in North America.

**Operating Margin.** Operating margin increased 320 basis points to 2.4% for the nine months ended November 2, 2019, compared to negative 0.8% in the same prior-year period. The European Commission fine unfavorably impacted operating margin by 240 basis points during the quarter ended November 3, 2018. Lower expenses related to certain professional and legal fees and related (credits) costs favorably impacted operating margin by 40 basis points compared to the same prior-year period. Excluding the impact of these expenses, operating margin would have improved by 40 basis points compared to the same prior-year period. The impact of currency on operating margin for the first nine months of fiscal 2020 was minimal.

**Earnings (Loss) from Operations.** Earnings from operations increased by \$58.7 million, or 404.3%, to \$44.2 million for the nine months ended November 2, 2019, compared to loss from operations of \$14.5 million in the same prior-year period. Currency translation fluctuations relating to our foreign operations unfavorably impacted earnings from operations by \$1.0 million.

**Interest Income (Expense), Net.** Interest expense, net, was \$10.0 million for the nine months ended November 2, 2019, compared to interest income, net of \$0.5 million for the nine months ended November 3, 2018. The change was due primarily to \$5.1 million in amortization of debt discount and higher interest expense related to the Company's convertible senior notes during the quarter ended November 2, 2019 and, to a lesser extent, decreased interest income related to the impact of hedge ineffectiveness of foreign exchange currency contracts designated as cash flow hedges recognized during the nine months ended November 3, 2018. As a result of the adoption of new guidance during the first quarter of fiscal 2020, there was no interest component recognized related to hedge ineffectiveness during the nine months ended November 2, 2019.

**Other Expense, Net.** Other expense, net, was \$4.3 million for the nine months ended November 2, 2019, an improvement of \$2.8 million, compared to \$7.1 million in the same prior-year period. The improvement was due primarily to net unrealized gains on non-operating assets compared to unrealized losses in the same prior-year period and lower net unrealized mark-to-market revaluation losses on foreign currency balances, partially offset by our proportionate share of net losses related to our minority investment in a privately-held apparel company and lower net mark-to-market gains on revaluation of foreign exchange currency contracts.

**Income Tax Expense (Benefit).** Income tax expense for the nine months ended November 2, 2019 was \$10.6 million, or a 35.7% effective tax rate, compared to an income tax benefit of \$13.0 million, or a 61.7% effective tax rate, in the same prior-year period. Generally, income taxes for the interim periods are computed using the tax rate estimated to be applicable for the full fiscal year, adjusted for discrete items, which is subject to ongoing review and evaluation by management. The change in the effective tax rate for nine months ended November 2, 2019 was due primarily to the revision of provisional amounts recorded related to the impact of the Tax Reform during the nine months ended November 3, 2018, partially offset by a shift in the distribution of earnings among the Company's tax jurisdictions within the quarters of the current fiscal year.

**Net Earnings Attributable to Noncontrolling Interests.** Net earnings attributable to noncontrolling interests were \$2.8 million, net of taxes, for the nine months ended November 2, 2019, compared to \$1.1 million, net of taxes, for the nine months ended November 3, 2018.

**Net Earnings (Loss) Attributable to Guess?, Inc.** Net earnings attributable to Guess?, Inc. increased \$25.5 million, or 279.3%, to \$16.4 million for the nine months ended November 2, 2019, from net loss attributable to Guess?, Inc. of \$9.1 million in the same prior-year period. Diluted earnings per share increased to \$0.22 for the nine months ended November 2, 2019, compared to diluted loss per share of \$0.12 in the same prior-year period. We estimate that the unfavorable impact from additional interest expense recognized related to the convertible senior notes offset by the favorable impact from share repurchases had a net negative impact on diluted earnings per share of \$0.06 for the nine months ended November 2, 2019. We also estimate that the negative impact of currency on diluted earnings per share for the nine months ended November 2, 2019 was approximately \$0.01 per share. During the nine months ended November 2, 2019, the Company recognized \$5.1 million of asset impairment charges; \$5.1 million of amortization of debt discount related to the Company's convertible senior notes; and a net credit of \$0.7 million of certain professional services and legal fees and related credits (or a combined \$6.3 million after considering the related tax benefit and adjustments to uncertain tax positions excluded from results in prior years totaling \$3.2 million), or an unfavorable impact of \$0.09 per share. Excluding the impact of these items, adjusted net earnings attributable to Guess?, Inc. were \$22.7 million and adjusted diluted earnings were \$0.31 per common share during the nine months ended November 2, 2019. We estimate that the unfavorable impact from additional interest expense recognized related to the convertible senior notes offset by the favorable impact from share repurchases had a minimal impact on adjusted diluted earnings per share for the nine months ended November 2, 2019. During the nine months ended November 3, 2018, the Company recognized charges of \$42.4 million related to the European Commission fine; \$5.9 million of certain professional services and legal fees and related costs; \$5.0 million of asset impairment charges; and \$0.2 million of net gains on lease terminations (or \$31.3 million after considering the related tax benefit of these adjustments of \$2.3 million and income tax benefits of \$19.6 million related to changes in the provisional amounts recorded related to the Tax Reform), or an unfavorable \$0.39 per share impact. Excluding the impact of these items, adjusted net earnings attributable to Guess?, Inc. were \$22.2 million and adjusted diluted earnings per share were \$0.27 per common share during the nine months ended November 3, 2018. References to financial results excluding the impact of these items are non-GAAP measures and are addressed below under "Non-GAAP Measures."

## Information by Business Segment

The following table presents our net revenue and earnings (loss) from operations by segment for the nine months ended November 2, 2019 and November 3, 2018 (dollars in thousands):

	Nine Months Ended		\$ Change	% Change
	Nov 2, 2019	Nov 3, 2018		
<b>Net revenue:</b>				
Americas Retail	\$ 553,213	\$ 555,390	\$ (2,177)	(0.4%)
Americas Wholesale	144,505	127,630	16,875	13.2%
Europe	827,817	771,470	56,347	7.3%
Asia	250,752	256,298	(5,546)	(2.2%)
Licensing	59,568	61,779	(2,211)	(3.6%)
Total net revenue	<u>\$ 1,835,855</u>	<u>\$ 1,772,567</u>	<u>\$ 63,288</u>	<u>3.6%</u>
<b>Earnings (loss) from operations:</b>				
Americas Retail	\$ 5,746	\$ 3,701	\$ 2,045	55.3%
Americas Wholesale	27,452	21,743	5,709	26.3%
Europe	54,742	17,608	37,134	210.9%
Asia	(10,435)	7,637	(18,072)	(236.6%)
Licensing	51,563	54,408	(2,845)	(5.2%)
Total segment earnings from operations	129,068	105,097	23,971	22.8%
Corporate overhead	(79,777)	(72,316)	(7,461)	10.3%
European Commission fine	—	(42,428)	42,428	
Asset impairment charges	(5,126)	(5,017)	(109)	2.2%
Net gains on lease terminations	—	152	(152)	
Total earnings (loss) from operations	<u>\$ 44,165</u>	<u>\$ (14,512)</u>	<u>\$ 58,677</u>	<u>404.3%</u>
<b>Operating margins:</b>				
Americas Retail	1.0%	0.7%		
Americas Wholesale	19.0%	17.0%		
Europe	6.6%	2.3%		
Asia	(4.2%)	3.0%		
Licensing	86.6%	88.1%		
Total Company	2.4%	(0.8%)		

### *Americas Retail*

Net revenue from our Americas Retail segment decreased by \$2.2 million, or 0.4%, to \$553.2 million for the nine months ended November 2, 2019, compared to \$555.4 million in the same prior-year period. In constant currency, net revenue was relatively flat compared to the same prior-year period as the favorable impact from positive comparable sales was offset by net store closures. Comparable sales (including e-commerce) increased 1% in U.S. dollars and constant currency. The inclusion of our e-commerce sales increased the comparable sales percentage by 1% in U.S. dollars and had a minimal impact in constant currency. The store base for the U.S. and Canada decreased by an average of 14 net stores during the nine months ended November 2, 2019 compared to the same prior-year period, resulting in a 3.4% net decrease in average square footage. Currency translation fluctuations relating to our non-U.S. retail stores and e-commerce sites had a negative impact of \$2.9 million on net revenue during the nine months ended November 2, 2019.

Operating margin increased 30 basis points to 1.0% for the nine months ended November 2, 2019, compared to 0.7% in the same prior-year period, due primarily to higher gross margins, partially offset by a higher SG&A rate. The higher gross margins were driven primarily by higher initial markups and, to a lesser extent, lower occupancy costs, partially offset by higher markdowns. The higher SG&A rate was driven primarily by higher store selling expenses due primarily to wage pressures.

Earnings from operations from our Americas Retail segment increased by \$2.0 million, or 55.3%, to \$5.7 million for the nine months ended November 2, 2019, compared to \$3.7 million in the same prior-year period. The improvement reflects the favorable impact on earnings from lower occupancy costs, partially offset by higher store selling expenses.

### ***Americas Wholesale***

Net revenue from our Americas Wholesale segment increased by \$16.9 million, or 13.2%, to \$144.5 million for the nine months ended November 2, 2019, compared to \$127.6 million in the same prior-year period. In constant currency, net revenue increased by 14.3%, driven primarily by higher shipments in our U.S. wholesale business. Currency translation fluctuations relating to our non-U.S. wholesale businesses unfavorably impacted net revenue by \$1.4 million.

Operating margin increased 200 basis points to 19.0% for the nine months ended November 2, 2019, compared to 17.0% in the same prior-year period, due primarily to higher gross margins and, to a lesser extent, a lower SG&A rate. The higher gross margins were driven primarily by higher initial markups and, to a lesser extent, lower markdowns. The lower SG&A rate was due primarily to overall leveraging of expenses.

Earnings from operations from our Americas Wholesale segment increased by \$5.7 million, or 26.3%, to \$27.5 million for the nine months ended November 2, 2019, compared to \$21.7 million in the same prior-year period, driven primarily by the favorable impact on earnings from higher revenue and, to a lesser extent, higher gross margins.

### ***Europe***

Net revenue from our Europe segment increased by \$56.3 million, or 7.3%, to \$827.8 million for the nine months ended November 2, 2019, compared to \$771.5 million in the same prior-year period. In constant currency, net revenue increased by 13.3%, driven primarily by the favorable impact from retail expansion and, to a lesser extent, higher shipments in our European wholesale business and positive comparable sales. Comparable sales (including e-commerce) decreased 1% in U.S. dollars and increased 4% in constant currency compared to the same prior-year period. The inclusion of our e-commerce sales increased the comparable sales percentage by 3% in U.S. dollars and constant currency. Currency translation fluctuations relating to our European operations unfavorably impacted net revenue by \$46.3 million.

Operating margin increased 430 basis points to 6.6% for the nine months ended November 2, 2019, from 2.3% in the same prior-year period, driven by higher gross margins and, to a lesser extent, a lower SG&A rate. The higher gross margins were due primarily to higher initial markups and, to a lesser extent, lower markdowns and lower logistics costs. The lower SG&A rate was due primarily to overall leveraging of expenses driven by higher wholesale and e-commerce shipments.

Earnings from operations from our Europe segment increased by \$37.1 million, or 210.9%, to \$54.7 million for the nine months ended November 2, 2019, compared to \$17.6 million in the same prior-year period. The increase was driven primarily by the favorable impact on earnings from higher revenue and, to a lesser extent, higher product margins, partially offset by higher occupancy costs and store selling expenses driven primarily by retail expansion. Currency translation fluctuations relating to our European operations unfavorably impacted earnings from operations by \$1.1 million.

### ***Asia***

Net revenue from our Asia segment decreased by \$5.5 million, or 2.2%, to \$250.8 million for the nine months ended November 2, 2019, compared to \$256.3 million in the same prior-year period. In constant currency, net revenue increased by 2.2%, driven primarily by retail expansion, partially offset by negative comparable sales. Comparable sales (including e-commerce) decreased 16% in U.S. dollars and 12% in constant currency compared to the same prior-year period. The inclusion of our e-commerce sales increased the comparable sales percentage by 1% in U.S. dollars and constant currency. Currency translation fluctuations relating to our Asian operations unfavorably impacted net revenue by \$11.2 million.

Operating margin deteriorated 720 basis points to negative 4.2% for the nine months ended November 2, 2019, compared to 3.0% in the same prior-year period, due to lower gross margins and, to a lesser extent, a higher SG&A rate. The lower gross margins were driven primarily by higher markdowns and, to a lesser extent, overall deleveraging of expenses due mainly to negative comparable sales. The higher SG&A rate was driven by overall deleveraging of expenses due mainly to negative comparable sales.

Loss from operations from our Asia segment was \$10.4 million for the nine months ended November 2, 2019, compared to earnings from operations of \$7.6 million in the same prior-year period. The deterioration was driven primarily by the unfavorable impact on earnings from lower gross margins and, to a lesser extent, higher SG&A expenses.

### ***Licensing***

Net royalty revenue from our Licensing segment decreased by \$2.2 million, or 3.6%, to \$59.6 million for the nine months ended November 2, 2019, compared to \$61.8 million in the same prior-year period.

Earnings from operations from our Licensing segment decreased by \$2.8 million, or 5.2%, to \$51.6 million for the nine months ended November 2, 2019, compared to \$54.4 million in the same prior-year period. The decrease was driven primarily by the unfavorable impact to earnings from lower revenue.

### ***Corporate Overhead***

Unallocated corporate overhead increased by \$7.5 million to \$79.8 million for the nine months ended November 2, 2019, compared to \$72.3 million in the same prior-year period, due primarily to higher performance-based compensation and, to a lesser extent, higher corporate investments and advertising expenses, partially offset by lower expenses related to certain professional service and legal fees and related (credits) costs.

### **Non-GAAP Measures**

The Company's reported financial results are presented in accordance with GAAP. The reported net earnings attributable to Guess?, Inc. and diluted earnings per share for the three and nine months ended November 2, 2019 reflect the impact of certain professional service and legal fees and related (credits) costs, asset impairment charges, amortization of debt discount on the Company's convertible senior notes and the tax effects of these adjustments as well as adjustments to uncertain tax positions excluded from results in prior years. The reported net loss attributable to Guess?, Inc. and diluted loss per share for the three and nine months ended November 3, 2018 reflect the impact of certain professional service and legal fees and related costs, asset impairment charges, net gains on lease terminations, charges related to the European Commission fine, the tax effects of these adjustments, where applicable, and revisions to provisional amounts previously recorded related to the Tax Reform. These items affect the comparability of the Company's reported results. The financial results are also presented on a non-GAAP basis, as defined in Section 10(e) of Regulation S-K of the SEC, to exclude the effect of these items. The Company believes that these items are not indicative of the underlying performance of its business and that the "non-GAAP" or "adjusted" information provided is useful for investors to evaluate the comparability of the Company's operating results and its future outlook when reviewed in conjunction with the Company's GAAP financial statements. The non-GAAP measures are provided in addition to, and not as alternatives for, the Company's reported GAAP results.

The adjusted measures for the three months ended November 2, 2019 exclude the impact of \$1.8 million of asset impairment charges; \$2.4 million of amortization of debt discount on the Company's convertible senior notes; and a net credit of \$1.4 million of certain professional services and legal fees and related credits. The asset impairment charges related to the impairment of certain retail locations primarily in North America and, to a lesser extent, Europe and Asia resulting from under-performance and expected store closures. These items resulted in a combined \$2.5 million negative impact (after considering the related tax benefit of \$0.4 million), or an unfavorable \$0.04 per share impact during the three months ended November 2, 2019. Net earnings attributable to Guess?, Inc. were \$12.4 million and diluted earnings were \$0.18 per common share for the three months ended November 2, 2019. Excluding the impact of these items, adjusted net earnings attributable to Guess?, Inc. were \$14.9 million and adjusted diluted earnings were \$0.22 per common share for the three months ended November 2, 2019.

The adjusted measures for the nine months ended November 2, 2019 exclude the impact of \$5.1 million of asset impairment charges; \$5.1 million of amortization of debt discount on the Company's convertible senior notes; and a net credit of \$0.7 million of certain professional services and legal fees and related credits. The asset impairment charges related to the impairment of certain retail locations primarily in North America and Europe

and, to a lesser extent, Asia resulting from under-performance and expected store closures. These items resulted in a combined \$6.3 million impact (after considering the related tax benefit and adjustments to uncertain tax positions excluded from results in prior years totaling \$3.2 million), or an unfavorable \$0.09 per share impact during the nine months ended November 2, 2019. Net earnings attributable to Guess?, Inc. were \$16.4 million and diluted earnings were \$0.22 per common share for the nine months ended November 2, 2019. Excluding the impact of these items, adjusted net earnings attributable to Guess?, Inc. were \$22.7 million and adjusted diluted earnings were \$0.31 per common share for the nine months ended November 2, 2019.

The adjusted measures for the three months ended November 3, 2018 exclude the impact of \$1.3 million of asset impairment charges; \$0.1 million of certain professional services and legal fees and related costs; charges of \$42.4 million related to the European Commission fine, and the tax benefit of \$19.6 million related to changes in provisional amounts recorded related to the Tax Reform. The asset impairment charges related primarily to the impairment of certain retail locations in North America resulting from under-performance and expected store closures. These items resulted in a \$24.0 million impact (after considering the related tax benefit of \$0.2 million), or an unfavorable \$0.30 per share impact during the three months ended November 3, 2018. Net loss attributable to Guess?, Inc. was \$13.4 million and diluted loss was \$0.17 per common share for the three months ended November 3, 2018. Excluding the impact of these items, adjusted net earnings attributable to Guess?, Inc. were \$10.6 million and adjusted diluted earnings were \$0.13 per common share for the three months ended November 3, 2018.

The adjusted measures for the nine months ended November 3, 2018 exclude the impact of \$5.9 million of certain professional services and legal fees and related costs; \$5.0 million of asset impairment charges; \$0.2 million of net gains on lease terminations; charges of \$42.4 million related to the European Commission fine; and the tax benefit of \$19.6 million related to changes in provisional amounts recorded related to the Tax Reform. The asset impairment charges related primarily to the impairment of certain retail locations in Europe and, to a lesser extent, North America resulting from under-performance and expected store closures. The net gains on lease terminations related primarily to the early termination of certain lease agreements in North America. During the nine months ended November 3, 2018, these items resulted in a combined \$31.3 million impact (after considering the related tax benefit of \$2.3 million), or an unfavorable \$0.39 per share impact during the nine months ended November 3, 2018. Net loss attributable to Guess?, Inc. was \$9.1 million and diluted loss was \$0.12 per common share for the nine months ended November 3, 2018. Excluding the impact of these items, adjusted net earnings attributable to Guess?, Inc. were \$22.2 million and adjusted diluted earnings were \$0.27 per common share for the nine months ended November 3, 2018.

Our discussion and analysis herein also includes certain constant currency financial information. Foreign currency exchange rate fluctuations affect the amount reported from translating the Company's foreign revenue, expenses and balance sheet amounts into U.S. dollars. These rate fluctuations can have a significant effect on reported operating results under GAAP. The Company provides constant currency information to enhance the visibility of underlying business trends, excluding the effects of changes in foreign currency translation rates. To calculate net revenue, comparable sales and earnings (loss) from operations on a constant currency basis, operating results for the current-year period are translated into U.S. dollars at the average exchange rates in effect during the comparable period of the prior year. To calculate balance sheet amounts on a constant currency basis, the current period balance sheet amount is translated into U.S. dollars at the exchange rate in effect at the comparable prior-year period end. The constant currency calculations do not adjust for the impact of revaluing specific transactions denominated in a currency that is different to the functional currency of that entity when exchange rates fluctuate. The constant currency information presented may not be comparable to similarly titled measures reported by other companies.

In calculating the estimated impact of currency fluctuations (including translational and transactional impacts) on other measures such as earnings (loss) per share, the Company estimates gross margin (including the impact of foreign exchange currency contracts designated as cash flow hedges for anticipated merchandise purchases) and expenses using the appropriate prior-year rates, translates the estimated foreign earnings (loss) at the comparable prior-year rates and excludes the year-over-year earnings impact of gains or losses arising from balance



sheet remeasurement and foreign exchange currency contracts not designated as cash flow hedges for merchandise purchases.

## Liquidity and Capital Resources

We need liquidity globally primarily to fund our working capital, occupancy costs, expansion plans, remodeling and rationalization of our retail stores, shop-in-shop programs, concessions, systems, infrastructure, other existing operations, international growth and potential acquisitions and investments. In addition, in the U.S. we need liquidity to fund share repurchases, payment of dividends to our stockholders and interest payments on our debt. Generally, our working capital needs are highest during the late summer and fall as our inventories increase before the holiday selling period. During the nine months ended November 2, 2019, we relied primarily on trade credit, available cash, real estate and other operating leases, finance leases, proceeds from the issuance of convertible senior notes, proceeds from short-term lines of credit and internally generated funds to finance our operations, share repurchases, payment of dividends and expansion. We anticipate that we will be able to satisfy our ongoing cash requirements during the next twelve months for working capital, capital expenditures, payments on our debt, finance leases and operating leases as well as lease termination payments, potential acquisitions and investments, share repurchases and dividend payments to stockholders, primarily with cash flow from operations and existing cash balances as supplemented by borrowings under our existing Credit Facility in the U.S. and Canada as well as bank facilities in Europe and China as needed. We expect to settle the principal amount of our outstanding convertible senior notes in 2024 in cash and any excess in shares. Such arrangements are described further in “Part I, Item 1. Financial Statements – Note 9 – Borrowings and Finance Lease Obligations” and “Part I, Item 1. Financial Statements – Note 10 – Convertible Senior Notes and Related Transactions” of this Form 10-Q. Due to the seasonality of our business and cash needs, including to help fund our continuing retail expansion plans, we may increase borrowings under our established credit facilities from time-to-time, during the next twelve months.

In December 2017, the U.S. government enacted the Tax Reform, which significantly changed the U.S. corporate income tax laws, including moving from a global taxation regime to a territorial regime and lowering the future U.S. federal tax rate from 35% to 21%. The Tax Reform also required a one-time mandatory transition tax on accumulated foreign earnings. Any income tax payable related to the transition tax is due over an eight-year period beginning in calendar 2018. The Company determined that in the event certain proposed legislation is passed in the future, the Company could have tax liabilities of approximately \$25.8 million. Therefore, the Company accrued such amount in the fourth quarter of fiscal 2019. During the second quarter of fiscal 2020, the Company revised its tax liability estimation and related accrual to \$23.2 million. The balance related to this transition tax included in other long-term liabilities was \$23.2 million and \$25.8 million as of November 2, 2019 and February 2, 2019, respectively.

The Company has historically considered the undistributed earnings of its foreign subsidiaries to be indefinitely reinvested. As a result of the Tax Reform, the Company had a substantial amount of previously taxed earnings that could be distributed to the U.S. without additional U.S. taxation. The Company continues to evaluate its plans for reinvestment or repatriation of unremitted foreign earnings and regularly review its cash positions and determination of permanent reinvestment of foreign earnings. If the Company determines that all or a portion of such foreign earnings are no longer indefinitely reinvested, it may be subject to additional foreign withholding taxes and U.S. state income taxes, beyond the Tax Reform’s one-time transition tax. The Company intends to indefinitely reinvest the remaining earnings from the Company’s foreign subsidiaries for which a deferred tax liability has not already been recorded. As of November 2, 2019, the Company had cash and cash equivalents of \$110.1 million, of which approximately \$26.9 million was held in the U.S.

Excess cash and cash equivalents, which represent the majority of our outstanding cash and cash equivalents balance, are held primarily in overnight deposit and short-term time deposit accounts. Please see “—Important Factors Regarding Forward-Looking Statements” discussed above, “Part II, Item 1A. Risk Factors” in this Form 10Q and “Part I, Item 1A. Risk Factors” contained in the Company’s most recent Annual Report on Form 10-K for the fiscal year ended February 2, 2019 for a discussion of risk factors which could reasonably be likely to

result in a decrease of internally generated funds available to finance capital expenditures and working capital requirements.

The Company has presented below the cash flow performance comparison of the nine months ended November 2, 2019, compared to the nine months ended November 3, 2018.

### ***Operating Activities***

Net cash used in operating activities was \$28.0 million for the nine months ended November 2, 2019, compared to \$46.9 million for the nine months ended November 3, 2018, or an improvement of \$18.9 million. This improvement was driven primarily by an increase in net earnings, partially offset by unfavorable changes in working capital. The unfavorable changes in working capital were due mainly to increased payments on accounts payable and accrued expenses, of which \$45.6 million related to payment of the European Commission fine. The increase in payments was partially offset by lower inventory purchases during the nine months ended November 2, 2019 compared to the same prior-year period.

### ***Investing Activities***

Net cash used in investing activities was \$48.0 million for the nine months ended November 2, 2019, compared to \$83.2 million for the nine months ended November 3, 2018. Net cash used in investing activities for the nine months ended November 2, 2019 related primarily to capital expenditures incurred on retail expansion, investments in technology infrastructure and existing store remodeling programs. In addition, proceeds from the sale of long-term assets, settlements of forward exchange currency contracts, the cost of any business acquisitions and purchases of investments are also included in cash flows used in investing activities.

The decrease in cash used in investing activities was driven primarily by lower spending on retail expansion during the nine months ended November 2, 2019 compared to the same prior-year period. During the nine months ended November 2, 2019, the Company opened 60 directly-operated stores compared to 117 directly-operated stores that were opened in the same prior-year period.

### ***Financing Activities***

Net cash used in financing activities was \$21.7 million for the nine months ended November 2, 2019, compared to \$78.3 million for the nine months ended November 3, 2018. Net cash used in financing activities for the nine months ended November 2, 2019 related primarily to repurchases of shares of the Company's common stock and payment of dividends, partially offset by net proceeds from the issuance of convertible senior notes, related warrants and short-term borrowings. In addition, payments related to finance lease obligations and borrowings and cash activity from the issuance of common stock under our equity plans are also included in cash flows used in financing activities.

The decrease in cash used in financing activities was driven primarily by net proceeds received from the issuance of convertible senior notes and related warrants and short-term borrowings and, to a lesser extent, lower payment of dividends during the nine months ended November 2, 2019 compared to the same prior-year period. This was partially offset by higher investments made in share repurchases, which included shares repurchased under the Company's accelerated share repurchase agreement, during the nine months ended November 2, 2019 compared to the same prior-year period.

### ***Effect of Exchange Rates on Cash, Cash Equivalents and Restricted Cash***

During the nine months ended November 2, 2019, changes in foreign currency translation rates decreased our reported cash, cash equivalents and restricted cash balance by \$2.7 million. This compares to a decrease of \$19.8 million in cash, cash equivalents and restricted cash driven by changes in foreign currency translation rates during the nine months ended November 3, 2018.

### ***Working Capital***

As of November 2, 2019, the Company had net working capital (including cash and cash equivalents) of \$340.8 million, compared to \$545.3 million at February 2, 2019 and \$522.1 million at November 3, 2018. The decrease in net working capital as of November 2, 2019 was driven primarily by the recognition of the current portion of operating lease liabilities of \$189.6 million resulting from the adoption of a comprehensive new lease standard during the first quarter of fiscal 2020.

The Company's primary working capital needs are for the current portion of lease liabilities, accounts receivable and inventory. Accounts receivable increased by \$14.1 million, or 4.9%, to \$300.2 million as of November 2, 2019, compared to \$286.1 million at November 3, 2018. On a constant currency basis, accounts receivable increased by \$18.5 million, or 6.5%, when compared to November 3, 2018.

The accounts receivable balance 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. As of November 2, 2019, approximately 47% of our total net trade receivables and 59% of our European net trade receivables were subject to credit insurance coverage, certain bank guarantees or letters of credit for collection purposes. Our credit insurance coverage contains certain terms and conditions specifying deductibles and annual claim limits.

Inventory decreased by \$28.6 million, or 5.2%, to \$519.9 million as of November 2, 2019, compared to \$548.5 million at November 3, 2018. On a constant currency basis, inventory decreased by \$23.4 million, or 4.3%, when compared to November 3, 2018, driven primarily by improved inventory management compared to the same prior-year period.

### ***Capital Expenditures***

Gross capital expenditures totaled \$49.0 million, before deducting lease incentives of \$5.0 million, for the nine months ended November 2, 2019. This compares to gross capital expenditures of \$74.9 million, before deducting lease incentives of \$6.0 million for the nine months ended November 3, 2018.

The Company's investments in capital for the full fiscal year 2020 are planned between \$63 million and \$68 million. The planned investments in capital are related primarily to retail and e-commerce expansion in Europe and Asia, existing store remodeling programs as well as continued investments in technology to support our long-term growth plans.

We will periodically evaluate strategic acquisitions and alliances and pursue those that we believe will support and contribute to our overall growth initiatives.

### ***Dividends***

On November 26, 2019, the Company announced a regular quarterly cash dividend of \$0.1125 per share on the Company's common stock. The cash dividend will be paid on January 2, 2020 to shareholders of record as of the close of business on December 11, 2019.

Decisions on whether, when and in what amounts to continue making any future dividend distributions will remain at all times entirely at the discretion of the Company's Board of Directors, which reserves the right to change or terminate the Company's dividend practices at any time and for any reason without prior notice. The payment of cash dividends in the future will be based upon a number of business, legal and other considerations, including our cash flow from operations, capital expenditures, debt service and covenant requirements, cash paid for income taxes, earnings, share repurchases, economic conditions and U.S. and global liquidity.

### ***Share Repurchases***

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 nine months ended November 2, 2019, the Company repurchased 16,412,609 shares under the program at an aggregate cost of \$280.5 million, which is inclusive of the shares repurchased under the ASR Contract as described below. As of November 2, 2019, the Company had remaining authority under the program to purchase \$94.1 million of its common stock.

On April 26, 2019, pursuant to existing stock repurchase authorizations, the Company entered into an ASR Contract with JPMorgan Chase Bank, National Association (in such capacity, the “ASR Counterparty”), to repurchase an aggregate of \$170 million of the Company’s common stock. Under the ASR Contract, the Company made an initial payment of \$170 million to the ASR Counterparty and received an initial delivery of approximately 5.2 million shares of common stock, which represented approximately \$102 million (or 60%) of the ASR Contract. The Company received a final delivery of an additional 5.4 million shares, or \$68 million, under its ASR Contract on September 4, 2019. The final share amount was determined based on the daily volume-weighted average price since the effective date of the ASR Contract, less the applicable contractual discount. When combined with the 5.2 million upfront shares received at the inception of the ASR in April 2019, the Company repurchased approximately 10.6 million of its shares under the ASR at an average repurchase price of \$16.09 per share. All shares were repurchased in accordance with the Company’s publicly announced ASR program, which is now complete. The shares delivered under the ASR Contract reduced the Company’s outstanding shares and its weighted average number of common shares outstanding for purposes of calculating basic and diluted earnings per share.

#### ***Borrowings and Finance Lease Obligations and Convertible Senior Notes***

See “Part I, Item 1. Financial Statements – Note 9 – Borrowings and Finance Lease Obligations” and “Part I, Item 1. Financial Statements – Note 10 – Convertible Senior Notes and Related Transactions” in this Form 10-Q for disclosures about our borrowings and finance lease obligations and convertible senior notes.

#### ***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.

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 \$65.4 million and \$61.7 million as of November 2, 2019 and February 2, 2019, 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 policy investments, the Company recorded unrealized gains of \$2.0 million and \$5.0 million in other income during the three and nine months ended November 2, 2019, respectively, and unrealized losses of \$2.3 million and \$1.6 million in other expense during the three and nine months ended November 3, 2018, respectively. The projected benefit obligation was \$52.3 million and \$52.2 million as of November 2, 2019 and February 2, 2019, 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 November 2, 2019, respectively. SERP benefit payments of \$0.4 million and \$1.3 million were made during the three and nine months ended November 3, 2018, respectively.

## **Contractual Obligations and Commitments**

During the nine months ended November 2, 2019, the Company issued convertible senior notes and borrowed upon certain short-term borrowing arrangements in Europe. See “Part I, Item 1. Financial Statements – Note 10 – Convertible Senior Notes and Related Transactions” and “Part I, Item 1. Financial Statements – Note 9 – Borrowings and Finance Lease Obligations” for further information on these arrangements. As of November 2, 2019, there were no other material changes to our contractual obligations and commitments outside the ordinary course of business compared to the disclosures included in our Form 10-K for the fiscal year ended February 2, 2019.

## **Inflation**

The Company does not believe that inflation trends in the U.S. and internationally over the last three years have had a significant effect on net revenue or profitability.

## **Wholesale Backlog**

We generally receive orders for fashion apparel three to six months prior to the time the products are delivered to our customers’ stores. The backlog of wholesale orders at any given time is affected by various factors, including seasonality, cancellations, the scheduling of market weeks, the timing of the receipt of orders and the timing of the shipment of orders and may include orders for multiple seasons. Accordingly, a comparison of backlogs of wholesale orders from period-to-period is not necessarily meaningful and may not be indicative of eventual actual shipments.

**U.S. and Canada Backlog.** Our U.S. and Canadian wholesale backlog as of December 2, 2019, consisting primarily of orders for fashion apparel, was \$47.7 million in constant currency, compared to \$51.2 million at December 3, 2018, a decrease of 6.8%. We estimate that if we were to normalize the orders for the scheduling of market weeks, the current backlog would have increased by 2.0% compared to the prior year.

**Europe Backlog.** As of December 2, 2019, the European wholesale backlog was €291.2 million, compared to €247.5 million at December 2, 2018, an increase of 17.6%. The backlog as of December 2, 2019 is comprised of sales orders for the Fall/Winter 2019, Spring/Summer 2020 and Fall/Winter 2020 seasons.

## **Application of Critical Accounting Policies**

Our critical accounting policies reflecting our estimates and judgments are described in “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations,” in our Annual Report on Form 10-K for the fiscal year ended February 2, 2019 filed with the SEC on March 29, 2019. There have been no significant changes to our critical accounting policies other than the implementation of a comprehensive new lease standard during the first quarter of fiscal 2020. See “Part I, Item 1. Financial Statements – Note 2 – Lease Accounting” for further information on our accounting policies related to the implementation of the comprehensive new lease standard.

## **Recently Issued Accounting Guidance**

See “Part I, Item 1. Financial Statements – Note 1 – Basis of Presentation and New Accounting Guidance” for disclosures about recently issued accounting guidance.

## **ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.**

### *Exchange Rate Risk*

More than half of product sales and licensing revenue recorded for the nine months ended November 2, 2019 were denominated in currencies other than the U.S. dollar. The Company’s primary exchange rate risk relates to operations in Europe, Canada, South Korea, China, Hong Kong and Mexico. Changes in currencies affect our earnings in various ways. For further discussion on currency-related risk, please refer to our risk factors under “Part I, Item 1A. Risk Factors” contained in the Company’s most recent Annual Report on Form 10-K for the fiscal year ended February 2, 2019.

### *Foreign Currency Translation Adjustment*

The local selling currency is typically the functional currency for all of the Company's significant international operations. In accordance with authoritative guidance, assets and liabilities of the Company's foreign operations are translated from foreign currencies into U.S. dollars at period-end rates, while income and expenses are translated at the weighted average exchange rates for the period. The related translation adjustments are reflected as a foreign currency translation adjustment in accumulated other comprehensive income (loss) within stockholders' equity. In addition, the Company records foreign currency translation adjustments related to its noncontrolling interests within stockholders' equity. Accordingly, our reported other comprehensive income (loss) could be unfavorably impacted if the U.S. dollar strengthens, particularly against the British pound, Canadian dollar, Chinese yuan, euro, Japanese yen, Korean won, Mexican peso, Russian rouble and Turkish lira. Alternatively, if the U.S. dollar weakens relative to those currencies, our reported other comprehensive income (loss) could be favorably impacted. Our foreign currency translation adjustments recorded in other comprehensive income (loss) are significantly impacted by net assets denominated in euros.

Periodically, the Company may also use foreign exchange currency contracts to hedge the translation and economic exposures related to its net investments in certain of its international subsidiaries (see below). Changes in the fair values of these foreign exchange currency contracts, designated as net investment hedges, are recorded in foreign currency translation adjustment as a component of accumulated other comprehensive income (loss) within stockholders' equity.

During the nine months ended November 2, 2019, the total foreign currency translation adjustment decreased stockholders' equity by \$14.1 million, driven primarily by the weakening of the U.S. dollar against the euro.

### *Foreign Currency Transaction Gains and Losses*

Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency, including gains and losses on foreign exchange currency contracts (see below), are included in the condensed consolidated statements of income. Net foreign currency transaction gains (losses) of \$3.1 million and \$(8.7) million were included in the determination of net earnings (loss) for the nine months ended November 2, 2019 and November 3, 2018, respectively.

### *Foreign Exchange Currency Contracts*

The Company operates in foreign countries, which exposes it to market risk associated with foreign currency exchange rate fluctuations. Various transactions that occur primarily in Europe, Canada, South Korea, China, Hong Kong and Mexico are denominated in U.S. dollars, British pounds and Russian roubles and thus are exposed to earnings risk as a result of exchange rate fluctuations when converted to their functional currencies. These types of transactions include U.S. dollar-denominated purchases of merchandise and U.S. dollar- and British pound-denominated intercompany liabilities. In addition, certain operating expenses, tax liabilities and pension-related liabilities are denominated in Swiss francs and are exposed to earnings risk as a result of exchange rate fluctuations when converted to the functional currency. The Company is also subject to certain translation and economic exposures related to its net investment in certain of its international subsidiaries. The Company enters into derivative financial instruments to offset some, but not all, of its exchange risk. In addition, some of the derivative contracts in place will create volatility during the fiscal year as they are marked-to-market according to the accounting rules and may result in revaluation gains or losses in different periods from when the currency impact on the underlying transactions are realized.

### *Foreign Exchange Currency Contracts Designated as Cash Flow Hedges*

During the nine months ended November 2, 2019, the Company purchased U.S. dollar forward contracts in Europe totaling US\$116.6 million that were designated as cash flow hedges. As of November 2, 2019, the Company had forward contracts outstanding for its European operations of US\$158.4 million to hedge forecasted merchandise purchases, which are expected to mature over the next 18 months. The Company's foreign exchange currency contracts are recorded in its condensed consolidated balance sheet at fair value based on quoted market rates. Changes in the fair value of the U.S. dollar forward contracts, designated as cash flow hedges for forecasted

merchandise purchases, are recorded as a component of accumulated other comprehensive income (loss) within stockholders' equity and are recognized in cost of product sales in the period that approximates the time the hedged merchandise inventory is sold. Changes in the fair value of the U.S. dollar forward contracts, designated as cash flow hedges for forecasted intercompany royalties, are recorded as a component of accumulated other comprehensive income (loss) within stockholders' equity and are recognized in other income (expense) in the period in which the royalty expense is incurred.

As of November 2, 2019, accumulated other comprehensive income (loss) related to foreign exchange currency contracts included a net unrealized gain of approximately \$7.5 million, net of tax, which \$6.8 million will be recognized in cost of product sales over the following 12 months, at the then current values on a pre-tax basis, which can be different than the current quarter-end values.

As of November 2, 2019, the net unrealized gain of the remaining open forward contracts recorded in the Company's condensed consolidated balance sheet was approximately \$4.4 million.

At February 2, 2019, the Company had forward contracts outstanding for its European and Canadian operations of US\$175.2 million and US\$3.9 million, respectively, that were designated as cash flow hedges. At February 2, 2019, the net unrealized gain of these open forward contracts recorded in the Company's condensed consolidated balance sheet was approximately \$4.0 million.

#### *Foreign Exchange Currency Contracts Not Designated as Hedging Instruments*

The Company has foreign exchange currency contracts that are not designated as hedging instruments for accounting purposes. Changes in fair value of foreign exchange currency contracts not designated as hedging instruments are reported in net earnings (loss) as part of other income (expense). For the nine months ended November 2, 2019, the Company recorded a net gain of \$0.6 million for its euro dollar foreign exchange currency contracts not designated as hedges, which has been included in other income. As of November 2, 2019, the Company had euro foreign exchange currency contracts to purchase US\$45.7 million expected to mature over the next 19 months. As of November 2, 2019, the net unrealized gain of these open forward contracts recorded in the Company's condensed consolidated balance sheet was approximately \$0.7 million.

At February 2, 2019, the Company had euro foreign exchange currency contracts to purchase US\$8.2 million. At February 2, 2019, the net unrealized gain of these open forward contracts recorded in the Company's condensed consolidated balance sheet was approximately \$0.6 million.

#### *Sensitivity Analysis*

As of November 2, 2019, a sensitivity analysis of changes in foreign currencies when measured against the U.S. dollar indicates that, if the U.S. dollar had uniformly weakened by 10% against all of the U.S. dollar denominated foreign exchange derivatives totaling US\$204.1 million, the fair value of the instruments would have decreased by \$22.7 million. Conversely, if the U.S. dollar uniformly strengthened by 10% against all of the U.S. dollar denominated foreign exchange derivatives, the fair value of these instruments would have increased by \$18.6 million. Any resulting changes in the fair value of the hedged instruments may be partially offset by changes in the fair value of certain balance sheet positions (primarily U.S. dollar denominated liabilities in our foreign operations) impacted by the change in the foreign currency rate. The ability to reduce the exposure of currencies on earnings depends on the magnitude of the derivatives compared to the balance sheet positions during each reporting cycle.

#### *Interest Rate Risk*

The Company is exposed to interest rate risk on its floating-rate debt. The Company has entered into interest rate swap agreements to effectively convert its floating-rate debt to a fixed-rate basis. The principal objective of these contracts is to eliminate or reduce the variability of the cash flows in interest payments associated with the Company's floating-rate debt, thus reducing the impact of interest rate changes on future interest payment cash flows. The Company has elected to apply the hedge accounting rules in accordance with authoritative guidance for certain of these contracts.

In April 2019, the Company issued \$300 million principal amount of the Notes in a private offering. The fair value of the Notes is subject to interest rate risk, market risk and other factors due to its conversion feature. The fair value of the Notes will generally increase as our common stock price increases and will generally decrease as our common stock price declines. The interest and market value changes affect the fair value of the Notes but do not impact our financial position, cash flows or results of operations due to the fixed nature of the debt obligation. Additionally, we carry the Notes at face value, less any unamortized discount on our balance sheet and we present the fair value for disclosure purposes only.

*Interest Rate Swap Agreement Designated as Cash Flow Hedge*

During fiscal 2017, the Company entered into an interest rate swap agreement with a notional amount of \$21.5 million, designated as a cash flow hedge, to hedge the variability of cash flows in interest payments associated with the Company's floating-rate debt. This interest rate swap agreement matures in January 2026 and converts the nature of the Company's real estate secured term loan from LIBOR floating-rate debt to fixed-rate debt, resulting in a swap fixed rate of approximately 3.06%. The fair value of the interest rate swap agreement is based upon inputs corroborated by observable market data. Changes in the fair value of the interest rate swap agreement, designated as a cash flow hedge to hedge the variability of cash flows in interest payments associated with the Company's floating-rate debt, are recorded as a component of accumulated other comprehensive income (loss) within stockholders' equity and are amortized to interest expense over the term of the related debt.

As of November 2, 2019, accumulated other comprehensive income (loss) related to the interest rate swap agreement included a net unrealized loss of \$0.1 million, net of tax, which will be recognized in interest expense after the following 12 months, at the then current values on a pre-tax basis, which can be different than the current quarter-end values. As of November 2, 2019, the net unrealized loss of the interest rate swap recorded in the Company's condensed consolidated balance sheet was approximately \$0.2 million. As of February 2, 2019, the net unrealized gain of the interest rate swap recorded in the Company's condensed consolidated balance sheet was approximately \$1.0 million.

*Sensitivity Analysis*

As of November 2, 2019, the Company had indebtedness related to a real estate secured term loan of \$19.2 million and finance lease obligations of \$17.2 million. The real estate secured term loan is covered by a separate interest rate swap agreement with a swap fixed interest rate of approximately 3.06% that matures in January 2026. The interest rate swap agreement is designated as a cash flow hedge and converts the nature of the Company's real estate secured term loan from LIBOR floating-rate debt to fixed-rate debt. The finance lease obligations are based on fixed interest rates derived from the respective agreements.

As of November 2, 2019, the Company also had borrowings under its short-term borrowing arrangements of \$33.0 million which are based on variable rates of interest. Accordingly, changes in interest rates would impact the Company's results of operations in future periods. A 100 basis point increase in interest rates would not have a significant effect on interest expense for the nine months ended November 2, 2019.

The fair values of the Company's debt instruments are based on the amount of future cash flows associated with each instrument discounted using the Company's incremental borrowing rate. As of November 2, 2019 and February 2, 2019, the carrying value was not materially different from fair value, as the interest rates on the Company's debt approximated rates currently available to the Company. The fair value of the Company's convertible senior notes is determined based on inputs that are observable in the market and have been classified as Level 2 in the fair value hierarchy.



#### **ITEM 4. Controls and Procedures.**

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the quarterly period covered by this report.

There was no change in our internal control over financial reporting during the third quarter of fiscal 2020 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

#### **PART II. OTHER INFORMATION**

##### **ITEM 1. Legal Proceedings.**

See “Part I, Item 1. Financial Statements – Note 13 – Commitments and Contingencies – Legal and Other Proceedings” in this Form 10-Q for disclosures about our legal and other proceedings.

##### **ITEM 1A. Risk Factors.**

Other than the risk factors noted below, there have not been any material changes from the Risk Factors as previously disclosed in our Annual Report on Form 10-K for the year ended February 2, 2019, filed with the SEC on March 29, 2019.

***Our indebtedness and liabilities could limit the cash flow available for our operations, expose us to risks that could adversely affect our business, financial condition and results of operations and impair our ability to satisfy our obligations under our outstanding indebtedness.***

As of November 2, 2019, we had approximately \$19.2 million of secured indebtedness, \$335.7 million of senior unsecured indebtedness at maturity and approximately \$253.6 million of trade payables on a consolidated basis.

We may incur additional indebtedness to meet future financing needs, some of which may be secured indebtedness. Our indebtedness could have significant negative consequences for our security holders and our business, results of operations and financial condition by, among other things:

- increasing our vulnerability to adverse economic and industry conditions;
- limiting our ability to obtain additional financing;
- requiring the dedication of a substantial portion of our cash flow from operations to service our indebtedness, which will reduce the amount of cash available for other purposes;
- limiting our flexibility to plan for, or react to, changes in our business;
- diluting the interests of our existing stockholders as a result of issuing shares of our common stock upon conversion of the Notes; and
- placing us at a possible competitive disadvantage with competitors that are less leveraged than us or have better access to capital.

Our business may not generate sufficient funds, and we may otherwise be unable to maintain sufficient cash reserves, to pay amounts due under our indebtedness, and our cash needs may increase in the future. In addition, our existing Credit Facility contains, and any future indebtedness that we may incur may contain, financial and other restrictive covenants that limit our ability to operate our business, raise capital or make payments under our other indebtedness. If we fail to comply with these covenants or to make payments under our indebtedness when due, then we would be in default under that indebtedness, which could, in turn, result in that and our other indebtedness becoming immediately payable in full.

***We conduct a significant amount of our operations through our subsidiaries and may rely on our subsidiaries to make payments under our outstanding indebtedness.***

We conduct a significant amount of our operations through our subsidiaries. Accordingly, our ability to pay amounts due on our outstanding indebtedness may depend on the cash flows of our subsidiaries and their ability to make distributions to us. Our subsidiaries are separate and distinct legal entities and any payments to us would depend on the earnings or financial condition of our subsidiaries and various business considerations. Statutory, contractual or other restrictions may also limit our subsidiaries' ability to pay dividends or make distributions, loans or advances to us, and the notes and the Indenture pursuant to which the notes were issued do not limit or restrict our or our subsidiaries' ability to enter into contractual restrictions on our subsidiaries' ability to pay dividends or make distributions, loans or advances to us. For these reasons, we may not have access to any assets or cash flows of our subsidiaries to make payments on our outstanding indebtedness.

***We cannot ensure that we will continue paying dividends at the current rates, or at all.***

We cannot ensure that we will continue periodic dividends on our common stock at the current rates, or at all. On April 19, 2019, our Board of Directors determined to reduce the quarterly cash dividend paid to holders of our common stock, when, as and if any such dividend with respect to any future period is decided by the board of directors, from \$0.225 per share to \$0.1125 per share. Changes in our dividend and market perceptions and expectations with respect to our dividend, may materially affect the price of our common stock and the Notes.

Any quarterly dividends on our common stock will be paid from funds legally available for such purpose when, as and if declared by our Board of Directors. Decisions on whether, when and in which amounts to continue making any future dividend distributions will remain at all times entirely at the discretion of our Board of Directors, which reserves the right to change or terminate our dividend practices at any time and for any reason without prior notice, including without limitation for any of the following reasons:

- our cash requirements or plans might change for a wide variety of reasons, including changes in our financial position, capital allocation plans (including a desire to retain or accumulate cash), capital spending plans, stock purchase plans, acquisition strategies, strategic initiatives, debt payment plans (including a desire to maintain or improve credit ratings on our debt securities), pension funding or other benefits payments;
- our ability to service and refinance our current and future indebtedness and our ability to borrow or raise additional capital to satisfy our capital needs;
- the amount of dividends that we may distribute to our shareholders is subject to restrictions under applicable law and restrictions imposed by our existing or future credit facilities, debt securities, then-outstanding preferred stock securities, if any, leases and other agreements, including restricted payment and leverage covenants; and
- the amount of cash that our subsidiaries may make available to us, whether by dividends, loans or other payments, may be subject to the legal, regulatory and contractual restrictions in our outstanding indebtedness.

Based on its evaluation of these and other relevant factors, our Board of Directors may, in its sole discretion, decide not to declare a dividend on our common stock for any period and for any reason without prior notice, regardless of whether we have funds legally available for such purposes. Holders of our equity securities have no contractual or other legal right to receive dividends.

***We may be unable to raise the funds necessary to repurchase the Notes for cash following a fundamental change, or to pay any cash amounts due upon conversion, and our other indebtedness may limit our ability to repurchase the Notes or pay cash upon their conversion.***

Noteholders may require us to repurchase their Notes following a fundamental change at a cash repurchase price generally equal to the principal amount of the Notes to be repurchased, plus accrued and unpaid interest, if any. In addition, upon conversion, we will satisfy part or all of our conversion obligation in cash unless we elect to settle conversions solely in shares of our common stock. Moreover, we will be required to repay the Notes in

cash at their maturity, unless earlier converted or repurchased. We may not have enough available cash or be able to obtain financing at the time we are required to repurchase the Notes or pay the cash amounts due upon conversion. In addition, applicable law, regulatory authorities and the agreements governing our other indebtedness, including our current Credit Facility and other agreements we may enter into in the future, may restrict our ability to make payments on the Notes other than scheduled principal and interest, and as a result, upon a fundamental change we may not be able to repurchase the Notes and upon any conversions of the Notes may be unable to pay the cash amounts, if any, then due. Our inability to satisfy our obligations under the Notes could harm our reputation and affect the trading price of our common stock.

Our failure to repurchase Notes or to pay the cash amounts due upon conversion or at maturity when required will constitute a default under the Indenture. A default under the Indenture or the fundamental change itself could also lead to a default under agreements governing our other indebtedness, which may result in that other indebtedness becoming immediately payable in full. We may not have sufficient funds to satisfy all amounts due under the other indebtedness and the Notes.

***The issuance or sale of shares of our common stock, or rights to acquire shares of our common stock, could depress the trading price of our common stock and the Notes.***

We may conduct future offerings of our common stock, preferred stock or other securities that are convertible into or exercisable for our common stock to finance our operations or fund acquisitions, or for other purposes. In addition, we have reserved a substantial number of shares of our common stock for issuance upon the exercise of stock options, upon the vesting of restricted stock and restricted stock units pursuant to our employee benefit plans, upon conversion of the Notes and upon the exercise and settlement or termination of the warrant transactions. We cannot predict the size of future issuances or the effect, if any, that they may have on the trading price of our common stock and the Notes.

If we issue additional shares of our common stock or rights to acquire shares of our common stock, if any of our existing stockholders sells a substantial amount of our common stock, or if the market perceives that such issuances or sales may occur, then the trading price of our common stock and the Notes may significantly decrease. In addition, our issuance of additional shares of common stock will dilute the ownership interests of our existing common stockholders.

***Recent and future regulatory actions and other events may adversely affect the trading price and liquidity of the Notes and the liquidity of the market for our common stock.***

Noteholders may seek to employ a convertible note arbitrage strategy with respect to the Notes. Under this strategy, investors typically short sell a certain number of shares of our common stock and adjust their short position over time while they continue to hold the Notes. Investors may also implement this type of strategy by entering into swaps on our common stock in lieu of, or in addition to, short selling shares of our common stock.

The SEC and other regulatory authorities have implemented various rules and taken certain actions, and may in the future adopt additional rules and take other actions, that may impact those engaging in short selling activity involving equity securities (including our common stock). These rules and actions include Rule 201 of SEC Regulation SHO, the adoption by the Financial Industry Regulatory Authority, Inc., and the national securities exchanges of a “limit up-limit down” program, the imposition of market-wide circuit breakers that halt trading of securities for certain periods following specific market declines, and the implementation of certain regulatory reforms required by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. Any governmental or regulatory action that restricts investors’ ability to effect short sales of our common stock or enter into equity swaps on our common stock could depress the trading price of, and the liquidity of the market for, the Notes.

In addition, the liquidity of the market for our common stock may decline, including as a result of our anticipated share repurchases, which could reduce the number of shares available for lending in connection with short sale transactions and the number of counterparties willing to enter into an equity swap on our common stock with a note investor. If investors and noteholders seeking to employ a convertible note arbitrage strategy are unable to borrow or enter into equity swaps on our common stock on commercially reasonable terms, then the trading price of, and the liquidity of the market for, the Notes may significantly decline.

***Provisions in the Indenture could delay or prevent an otherwise beneficial takeover of us.***

Certain provisions in the Indenture could make a third-party attempt to acquire us more difficult or expensive. For example, if a takeover constitutes a fundamental change, then noteholders will have the right to require us to repurchase their Notes for cash. In addition, if a takeover constitutes a make-whole fundamental change, then we may be required to temporarily increase the conversion rate. As well, the Indenture prohibits us from engaging in certain mergers or acquisitions unless, among other things, the surviving entity assumes our obligations under the Notes. In such cases, and in other cases, our obligations under the Notes and the Indenture could increase the cost of acquiring us or otherwise discourage a third-party from acquiring us or removing incumbent management, including in a transaction that noteholders or holders of our common stock may view as favorable.

***The conditional conversion feature of the Notes, if triggered, may adversely affect our financial condition and results of operations.***

In the event the conditional conversion feature of the Notes is triggered, noteholders will be entitled to convert the Notes at any time during specified periods at their option. If one or more noteholders elect to convert their Notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock, we would be required to settle all or a portion of the conversion obligation through the payment of cash, which could adversely affect our liquidity. Even if noteholders do not elect to convert their Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Notes as a current liability, which would result in a material reduction of our net working capital.

***The accounting method for the Notes could adversely affect our reported financial condition and results.***

The accounting method for reflecting the Notes on our balance sheet, accruing interest expense for the Notes and reflecting the underlying shares of our common stock in our reported diluted earnings per share may adversely affect our reported earnings and financial condition.

Under applicable accounting principles, the initial liability carrying amount of the Notes is the fair value of a similar debt instrument that does not have a conversion feature, valued using our cost of capital for straight, unconvertible debt. We reflect the difference between the net proceeds from the Notes offering and the initial carrying amount as a debt discount for accounting purposes, which will be amortized into interest expense over the term of the Notes. As a result of this amortization, the interest expense that we expect to recognize for the Notes for accounting purposes will be greater than the cash interest payments we will pay on the Notes, which will result in lower reported income or higher reported loss. The lower reported income or higher reported loss resulting from this accounting treatment could depress the trading price of our common stock and the Notes.

In addition, because we intend to settle conversions by paying the conversion value in cash up to the principal amount being converted and any excess in shares, we expect to be eligible to use the treasury stock method to reflect the shares underlying the Notes in our diluted earnings per share. Under this method, if the conversion value of the notes exceeds their principal amount for a reporting period, then we will calculate our diluted earnings per share assuming that all the Notes were converted and that we issued shares of our common stock to settle the excess. However, if reflecting the Notes in diluted earnings per share in this manner is antidilutive, or if the conversion value of the Notes does not exceed their principal amount for a reporting period, then the shares underlying the Notes will not be reflected in our diluted earnings per share. However, if for any reason we are unable to use the treasury stock method in accounting for the shares issuable upon conversion of the Notes, then our diluted earnings per share may be adversely affected. For example, the Financial Accounting Standards Board has recently taken preliminary steps to potentially amend these accounting standards to eliminate the treasury stock method for convertible instruments and instead require application of the “if-converted” method. Under that method, if it is adopted, diluted earnings per share would generally be calculated assuming that all the Notes were converted solely into shares of common stock at the beginning of the reporting period, unless the result would be antidilutive. The application of the if-converted method may reduce our reported diluted earnings per share.

Furthermore, if any of the conditions to the convertibility of the Notes is satisfied, then we may be required under applicable accounting standards to reclassify the liability carrying value of the Notes as a current, rather

than a long-term, liability. This reclassification could be required even if no noteholders convert their Notes and could materially reduce our reported working capital.

***The Notes' hedge and warrant transactions may affect the value of the Notes and our common stock.***

In connection with the pricing of the Notes, we entered into convertible note hedge transactions with the hedge counterparties. The convertible note hedge transactions covered, subject to anti-dilution adjustments substantially similar to those applicable to the Notes, the number of shares of common stock that initially underlie the Notes, including those sold to the initial purchaser, and are expected generally to reduce the potential dilution upon conversion of the Notes and/or offset any cash payments we are required to make in excess of the principal amount of converted Notes, as the case may be. We also entered into warrant transactions with the hedge counterparties relating to the same number of shares of our common stock, subject to customary antidilution adjustments. However, the warrant transactions could separately have a dilutive effect on our common stock to the extent that the market price per share of our common stock exceeds the strike price of the warrants. In connection with establishing their initial hedges of the convertible note hedge and warrant transactions, the hedge counterparties or affiliates thereof entered into various derivative transactions with respect to our common stock concurrently with or shortly after the pricing of the Notes, and may unwind these derivative transactions and purchase shares of our common stock in open market transactions shortly following the pricing of the Notes. These activities could increase (or reduce the size of any decrease in) the market price of our common stock or the Notes at that time.

In addition, the hedge counterparties or affiliates thereof may modify their hedge positions by entering into or unwinding various derivatives with respect to our common stock and/or purchasing or selling our common stock or other securities of ours in secondary market transactions prior to the maturity of the Notes (and are likely to do so during any observation period related to a conversion of Notes). This activity could also cause or avoid an increase or a decrease in the market price of our common stock or the Notes.

***We are subject to counterparty risk with respect to the Notes' hedge transactions.***

The hedge counterparties are financial institutions, and we are subject to the risk that they might default under the convertible note hedge transactions. Our exposure to the credit risk of the hedge counterparties is not secured by any collateral. Global economic conditions have from time to time resulted in the actual or perceived failure or financial difficulties of many financial institutions, including the bankruptcy filing by Lehman Brothers Holdings Inc. and its various affiliates. If any hedge counterparty becomes subject to insolvency proceedings, we will become an unsecured creditor in those proceedings with a claim equal to our exposure at that time under our transactions with such hedge counterparty. Our exposure will depend on many factors, but, generally, the increase in our exposure will be correlated to the increase in the market price and in the volatility of our common stock. In addition, upon a default by a hedge counterparty, we may suffer adverse tax consequences and more dilution than we currently anticipate with respect to our common stock. We can provide no assurances as to the financial stability or viability of the hedge counterparties.

***Conversion of the Notes or exercise of the warrants evidenced by the warrant transactions may dilute the ownership interest of existing stockholders.***

At our election, we may settle Notes tendered for conversion entirely or partly in shares of our common stock. Furthermore, the warrants evidenced by the warrant transactions are expected to be settled on a net-share basis. As a result, the conversion of some or all of the Notes or the exercise of some or all of such warrants may dilute the ownership interests of existing stockholders. Any sales in the public market of the common stock issuable upon such conversion of the Notes or such exercise of the warrants could adversely affect prevailing market prices of our common stock and, in turn, the price of the Notes. In addition, the existence of the Notes may encourage short selling by market participants because the conversion of the Notes could depress the price of our common stock.

***Our repurchases of shares of our common stock may affect the value of the Notes and our common stock.***

After effectuating the convertible note hedge transactions, we used substantially all of the net proceeds of the Notes offering to repurchase shares of our common stock pursuant to our \$500 million share repurchase program. Some of these transactions were affected by repurchases from purchasers of the Notes in privately negotiated transactions through the initial purchaser or its affiliate, as our agent, concurrently with the closing of the Notes offering, and we may continue to effect repurchases in open market or other transactions from time to time in the future. These activities and our other repurchases of shares of our common stock may cause or avoid an increase or a decrease in the market price of our common stock or the Notes and add volatility. There can be no assurance that repurchases will be made at the best possible price. Potential risks and uncertainties also include, but are not necessarily limited to, the amount and timing of future share repurchases and the origin of funds used for such repurchases. The existence of a share repurchase program could also cause the market price of our common stock to be higher than it would be in the absence of such a program and could potentially reduce the market liquidity for our common stock. Depending on market conditions and other factors, these repurchases may be commenced or suspended from time to time. Any such suspension could cause the market price of our common stock to decline.

**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

Items (a) and (b) are not applicable.

Item (c). Issuer Purchases of Equity Securities

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plans or Programs</b>
<b>August 4, 2019 to August 31, 2019</b>				
Repurchase program <sup>1, 2</sup>	5,399,305	\$ 12.59	5,399,305	\$ 94,149,167
Employee transactions <sup>3</sup>	418	\$ 16.42	—	
<b>September 1, 2019 to October 5, 2019</b>				
Repurchase program <sup>2</sup>	—	—	—	\$ 94,149,167
Employee transactions <sup>3</sup>	342	\$ 17.76	—	
<b>October 6, 2019 to November 2, 2019</b>				
Repurchase program <sup>2</sup>	—	—	—	\$ 94,149,167
Employee transactions <sup>3</sup>	—	—	—	
<b>Total</b>				
Repurchase program <sup>2</sup>	5,399,305	\$ 12.59	5,399,305	
Employee transactions <sup>3</sup>	760	\$ 17.02	—	

*Notes:*

- <sup>1</sup> On April 26, 2019, pursuant to existing stock repurchase authorizations, the Company entered into an accelerated share repurchase agreement (the “ASR Contract”) with JPMorgan Chase Bank, National Association (the “ASR Counterparty”) to repurchase an aggregate of \$170 million of the Company’s common stock. Upon the terms of the ASR Contract, the Company made an initial payment of \$170 million to the ASR Counterparty and received an initial delivery of 5.2 million shares of common stock, which represented approximately \$102 million (or 60%) of the ASR Contract. The Company received a final delivery of an additional 5.4 million shares, or \$68 million, under its ASR Contract on September 4, 2019. The trade date for these shares was August 30, 2019. Refer to “Part I, Item 1. Financial Statements – Note 4 – Stockholders’ Equity – Share Repurchase Program” for further information.
- <sup>2</sup> 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.
- <sup>3</sup> Consists of shares surrendered to, or withheld by, the Company in satisfaction of employee tax withholding obligations that occur upon vesting of restricted stock awards/units granted under the Company’s 2004 Equity Incentive Plan, as amended.

**ITEM 6. Exhibits.**

<b>Exhibit Number</b>	<b>Description</b>
3.1.	<a href="#">Restated Certificate of Incorporation of the Registrant (incorporated by reference from Amendment No. 3 to the Registrant's Registration Statement on Form S-1 (Registration No. 333-4419) filed July 30, 1996).</a>
3.2.	<a href="#">Third Amended and Restated Bylaws of the Registrant (incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended February 3, 2018).</a>
4.1.	<a href="#">Specimen Stock Certificate (incorporated by reference from Amendment No. 3 to the Registrant's Registration Statement on Form S-1 (Registration No. 333-4419) filed July 30, 1996).</a>
4.2.	<a href="#">Indenture, dated as of April 26, 2019, between the Registrant and U.S. Bank National Association, as trustee (including form of 2.00% Convertible Senior Notes due 2024) (incorporated by reference from the Registrant's Current Report on Form 8-K filed April 29, 2019).</a>
*10.1.	<a href="#">Offer Letter dated October 23, 2019 between the Registrant and Kathryn Anderson (incorporated by reference from the Registrant's Current Report on Form 8-K filed November 6, 2019).</a>
*†10.2.	<a href="#">Separation and Release Agreement dated December 1, 2019 between the Registrant and Sandeep Reddy.</a>
†31.1.	<a href="#">Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
†31.2.	<a href="#">Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
††32.1.	<a href="#">Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
††32.2.	<a href="#">Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
†101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
†101.SCH	XBRL Taxonomy Extension Schema Document
†101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
†101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
†101.LAB	XBRL Taxonomy Extension Label Linkbase Document
†101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
†104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

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\* Management Contract or Compensatory Plan

† Filed herewith

†† Furnished herewith



**SIGNATURES**

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

**Guess?, Inc.**

Date: December 3, 2019

By: /s/ CARLOS ALBERINI

Carlos Alberini  
Chief Executive Officer

Date: December 3, 2019

By: /s/ KATHRYN ANDERSON

Kathryn Anderson  
Chief Financial Officer  
(Principal Financial Officer)

**SEPARATION AND RELEASE AGREEMENT**

This Separation and Release Agreement (this "Agreement") is made and entered into this 1<sup>st</sup> day of December 2019, by and between Guess?, Inc., a Delaware corporation (the "Company"), and Sandeep Reddy ("Executive").

**RECITALS**

Executive was employed by and an officer of the Company, and Executive's employment with and service as an officer of the Company ended on December 1, 2019 (the "Separation Date");

Executive is a party to an offer letter with the Company dated April 28, 2017 (the "Offer Letter"), and a Confidentiality Agreement with the Company dated August 5, 2010 (the "Confidentiality Agreement"); and

The parties desire to enter into this Agreement on the terms and conditions set forth below.

**NOW, THEREFORE**, in consideration of the covenants undertaken and the releases contained in this Agreement, Executive and the Company agree as follows:

1. **Separation.**

(a) Executive's employment with the Company ended on the Separation Date. Executive hereby irrevocably resigns as an employee, officer, manager and in each and every other capacity with the Company and each of its Affiliates (as such term is defined below) on the Separation Date. The Company accepts such resignation.

(b) Executive agrees that he has been paid all compensation and benefits due from the Company and each of its Affiliates (including, but not limited to, accrued vacation, salary, bonus, incentive, equity awards, and other wages), and that all payments due to Executive from the Company or any of its Affiliates after the Separation Date shall be determined under this Agreement. Executive agrees that he has submitted and been reimbursed for all reimbursable business expenses. Except as expressly provided in Section 3 below, Executive agrees that he holds no equity or derivative equity interest in, has no right with respect to any such interest in, has no right to any other incentive in or with respect to, and otherwise has no investment or right to make any investment in or with respect to the Company or any of its Affiliates. Executive's accrued and vested benefit under the Guess?, Inc. 401(k) Plan will be paid in accordance with the terms of that plan. Executive's accrued and vested benefit under the Company's Nonqualified Deferred Compensation Plan will be paid in accordance with the terms of that plan and the applicable deferral terms, giving effect to the six-month delay for payments to "specified employees" under the terms of the plan and Internal Revenue Code Section 409A.

(c) Beginning with coverage for January 2020, Executive shall have the option to convert and continue coverage for Executive and Executive's eligible dependents under the Company's group health and dental insurance plans, as may be required by law under the Consolidated Omnibus Budget Reconciliation Act ("COBRA") or Cal-COBRA, as applicable. Executive further acknowledges that Executive must make a timely election to continue such coverage for COBRA benefits and Executive shall be exclusively responsible to pay the full costs of the premiums and administrative charges required by COBRA or Cal-COBRA, as applicable.

(d) As used in this Agreement: (i) the term “Affiliate” means a person that directly or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the Company; (ii) the term “control,” including the correlative terms “controlling,” “controlled by” and “under common control with,” means the possession, directly or indirectly, of the power to direct or cause the direction of management or policies (whether through ownership of securities or any partnership or other ownership interest, by contract or otherwise) of a person; and (iii) the term “person” shall be construed broadly and includes, without limitation, an individual, a partnership, a limited liability company, a corporation, an association, a joint stock company, a trust, a joint venture, an unincorporated organization and a governmental entity or any department, agency or political subdivision thereof.

2. **Severance Payment.** Provided that Executive signs this Agreement and does not revoke it, the Company shall pay or provide Executive with the following severance benefit: payment of an aggregate amount equal to \$650,000, to be paid in installments in accordance with the Company’s normal payroll practices over a period of twelve (12) months (approximately \$54,166.67 per month), subject to tax withholding and other authorized deductions; provided that the first installment shall be paid to Executive on (or within five (5) days following) the date that is six (6) months following the Separation Date or, if earlier, on (or within fifteen (15) days following) the date of Executive’s death, and in either case the first payment shall include any installments that would otherwise have been paid but for such delay in the first payment (it being intended that such delay satisfy the requirements of Internal Revenue Code Section 409A). The first installment shall include interest for the period of delay (from the date the installment would have otherwise become payable through the date of actual payment) for each monthly installment payment that would have been paid earlier had the delay rule of Internal Revenue Code Section 409A not applied, with interest calculated based on the prime rate (as published in The Wall Street Journal) and in effect as of the date the payment would have otherwise been paid had such delay not applied (with annual compounding), and with each installment treated as having otherwise become payable for this purpose on the applicable monthly anniversary of the Separation Date (e.g., the third installment would have become payable three months after the Separation Date, and so on) except that the first two installments shall be treated for this purpose as having otherwise become payable on the date that is two months after the Separation Date. Notwithstanding anything to the contrary in this Section 2, if within one (1) year following the Separation Date, Executive begins full-time employment, part-time employment, or a consulting engagement, the Company may reduce the severance payments payable to Executive pursuant to this Section 2 by the amount of compensation due to Executive for such employment or service, and if such compensation exceeds the severance payments, the Company may cease making the severance payments payable to Executive pursuant to this Section 2.

3. **Equity Awards.** Prior to the Separation Date, the Company granted Executive certain equity awards that remained outstanding (in whole or part) as of the Separation Date (collectively, the “Outstanding Equity Awards”). In accordance with the terms of the applicable award agreements, no portion of the Outstanding Equity Awards accelerated and became vested in connection with the Separation Date, and any portion of the Outstanding Equity Awards that was not vested on the Separation Date terminated on the Separation Date and Executive has no further right with respect thereto or in respect thereof. Any stock options held by the Executive that were outstanding and vested as of the Separation Date remain exercisable for sixty (60) days following the Separation Date, and, to the extent not exercised in that sixty (60) day period of time, will terminate on the last day of the sixty (60) day period and Executive will have no further right with respect thereto or in respect thereof. The terms and conditions of the applicable award agreements that evidence the Outstanding Equity Awards will continue to apply as to each such award.

4. **Release of Claims.** Executive, on his own behalf and on behalf of his descendants, dependents, heirs, executors, administrators, assigns and successors, and each of them, hereby fully and forever releases the Company, its divisions, subsidiaries, parents, or affiliated corporations, past and present, and each of them, as well as its and their assignees, successors, directors, officers, stockholders, partners, representatives, attorneys, agents or employees, past or present, or any of them (individually and collectively, "Releasees"), from, and agrees not to sue concerning, or in any manner institute, prosecute or pursue, or cause to be instituted, prosecuted, or pursued, any claim, duty, obligation or cause of action relating to any matters of any kind, whether presently known or unknown, suspected or unsuspected, that Executive may possess against any of the Releasees arising from any acts or omissions that have occurred up until and including the date and time that Executive signs the Agreement (collectively, "Claims"), including, without limitation, (a) any and all Claims relating to or arising from Executive's employment relationship with the Company and the termination of that relationship; (b) any and all Claims for violation of any federal, state, municipal, or other applicable jurisdiction (whether in or outside of the United States) law, constitution, regulation, ordinance or common law, including, but not limited to, Title VII of the Civil Rights Act of 1964; the Civil Rights Act of 1991; the Americans with Disabilities Act of 1990; the Fair Labor Standards Act; the Employee Retirement Income Security Act of 1974; the federal Family Medical Leave Act; the California Business and Professions Code; the California Family Rights Act; the California Fair Employment and Housing Act; and the California Labor Code; and all amendments to each such law; (c) any and all Claims for any wrongful discharge of employment; termination in violation of public policy; discrimination; harassment; retaliation; breach of contract, both express and implied (including but not limited to Claims arising out of the Offer Letter); breach of covenant of good faith and fair dealing, both express and implied; promissory estoppel; negligent or intentional infliction of emotional distress; fraud; negligent or intentional misrepresentation; negligent or intentional interference with contract or prospective economic advantage; unfair business practices; defamation; personal injury; invasion of privacy; false imprisonment; and conversion; (d) any and all Claims for wages, benefits, severance, vacation, bonuses, commissions, equity, expense reimbursements, or other compensation or benefits; and (e) any and all Claims for attorneys' fees, costs and/or penalties; provided, however, that the foregoing release does not apply to any obligation of the Company to Executive pursuant to any of the following: (1) this Agreement; (2) any right to indemnification that Executive may have pursuant to the Company's bylaws, its corporate charter (or any corresponding provision of any subsidiary or affiliate of the Company), or applicable law; (3) with respect to any rights that Executive may have to insurance coverage under any Company (or subsidiary or affiliate) directors and officers liability insurance policy; and (4) any rights to continued medical and dental coverage that Executive may have under COBRA. In addition, this release does not cover any Claim that cannot be so released as a matter of applicable law.

Executive understands that nothing in this Agreement limits his ability to file a charge or complaint with the Equal Employment Opportunity Commission, the National Labor Relations Board, the Occupational Safety and Health Administration, the Securities and Exchange Commission or any other federal, state or local government agency or commission ("Government Agencies"). Executive further understands that this Agreement does not limit his ability to communicate with any Government Agencies or otherwise participate in any investigation or proceeding that may be conducted by any Government Agency, including providing documents or other information, without notice to the Company. However, by signing this Agreement Executive waives his right to recover individual relief based on any released claims asserted in such a charge or complaint with the exception that this Agreement does not limit Executive's right to receive an award for information provided to any Government Agencies authorized to provide monetary or other awards to eligible individuals who come forward with information that leads to an agency enforcement action. Notwithstanding anything to the contrary herein, consistent with the federal Defend Trade Secrets Act of 2016 ("DTSA"), nothing in this Agreement or the Confidentiality

Agreement is intended to limit Executive's right (a) to disclose the Company's trade secrets in a confidential manner either to a federal, state or local government official or to an attorney where such disclosure is solely for the purpose of reporting or investigating a suspected violation of law, or (b) to disclose the Company's trade secrets in an anti-retaliation lawsuit or other legal proceeding, so long as that disclosure or filing is made under seal and Executive does not otherwise disclose such trade secrets, except pursuant to court order.

5. **Waiver of Unknown Claims.** This Agreement is intended to be effective as a general release of and bar to each and every Claim hereinabove specified. Accordingly, Executive hereby expressly waives any rights and benefits conferred by Section 1542 of the California Civil Code and any similar provision of any other applicable state law as to the Claims. Section 1542 of the California Civil Code provides:

"A general release does not extend to claims that the creditor or releasing party does not know or suspect to exist in his or her favor at the time of executing the release and that, if known by him or her, would have materially affected his or her settlement with the debtor or released party."

Executive acknowledges that he may later discover claims, demands, causes of action or facts in addition to or different from those which Executive now knows or believes to exist with respect to the subject matter of this Agreement and which, if known or suspected at the time of executing this Agreement, may have materially affected its terms. Nevertheless, Executive hereby waives, as to the Claims, any claims, demands, and causes of action that might arise as a result of such different or additional claims, demands, causes of action or facts.

6. **ADEA Waiver.** Executive expressly acknowledges and agrees that by entering into this Agreement, he is waiving any and all rights or claims that he may have arising under the Age Discrimination in Employment Act of 1967, as amended (the "ADEA"), and that this waiver and release is knowing and voluntary. Executive and the Company agree that this waiver and release does not apply to any rights or claims that may arise under the ADEA after the date Executive signs this Agreement. Executive further expressly acknowledges and agrees that:

- (a) In return for this Agreement, he will receive consideration beyond that which he was already entitled to receive before executing this Agreement;
- (b) He is hereby advised in writing by this Agreement to consult with an attorney before signing this Agreement;
- (c) He was given a copy of this Agreement on the Separation Date, and informed that he had twenty-one (21) days within which to consider this Agreement and that if he wished to execute this Agreement prior to the expiration of such 21-day period he will have done so voluntarily and with full knowledge that he is waiving his right to have twenty-one (21) days to consider this Agreement; and that such twenty-one (21) day period to consider this Agreement would not and will not be restarted or extended based on any changes, whether material or immaterial, that are or were made to this Agreement in such twenty-one (21) day period after he received it;
- (d) He was informed that he had seven (7) days following the date of execution of this Agreement in which to revoke this Agreement, and this Agreement will become null and void if Executive elects revocation during that time. Any revocation must be in writing and must be received by the Company during the seven-day revocation period. In the event that Executive exercises this revocation right, neither the Company nor Executive will have any obligation under this Agreement. Any notice of revocation should be sent by Executive in writing to the Company

(attention General Counsel), 1444 South Alameda Street, Los Angeles, California 90021, and with a copy (which shall not constitute notice) to Jeffrey W. Walbridge, Esq., O'Melveny & Myers LLP, 610 Newport Center Drive, Suite 1700, Newport Beach, CA 92660, so that each is received within the seven-day period following execution of this Agreement by Executive.

(e) Nothing in this Agreement prevents or precludes Executive from challenging or seeking a determination in good faith of the validity of this waiver under the ADEA, nor does it impose any condition precedent, penalties or costs for doing so, unless specifically authorized by federal law.

7. **No Transferred Claims, Pending Claims or Future Lawsuits.** Executive warrants and represents that he has not heretofore assigned or transferred to any person not a party to this Agreement any released matter or any part or portion thereof. Executive warrants and represents that he has no lawsuits, claims, or actions pending in his name, or on behalf of any other person or entity, against the Company or any of the Releasees. Executive also warrants and represents that he does not presently intend to bring any claims on his own behalf or on behalf of any other person or entity against the Company or any of the Releasees. Executive also promises to opt out of any class or representative action and to take such other steps as Executive has the power to take to disassociate himself from any class or representative action seeking relief against the Company and/or any other Releasee regarding any of the matters released in this Agreement.

8. **Confidentiality Agreement; Cooperation.** Executive shall, and Executive hereby acknowledges that he will, comply with his continuing obligations under the terms of the Confidentiality Agreement. Executive agrees to reasonably cooperate with the Company and its Affiliates regarding the orderly transition of his former duties and responsibilities and to reflect his separation from his prior positions with the Company and its Affiliates (including, without limitation, to remove Executive from bank accounts of and as having signing authority for the Company or any of its Affiliates).

9. **Non-Disparagement.** Executive shall not, at any time, publish or communicate disparaging or derogatory statements or opinions about the Company or any of its Affiliates, including but not limited to, disparaging or derogatory statements or opinions about its or their management, directors, officers, employees, agents, stockholders, research, products or services, to any third party. Furthermore, the Company shall instruct the senior officers and members of the board of directors of the Company to not, at any time, publish or communicate disparaging or derogatory statements or opinions about Executive to any third party. The restrictions of this Section 9 shall not apply to truthful statements made in court, arbitration proceedings or mediation proceedings or in documents produced or testimony given in connection with legal process that are based on the reasonable belief of the person making the statement and are not made in bad faith.

10. **Return of Property.** Executive agrees to commit no act or omission that harms, impairs or in any way damages the Company's (or any of its Affiliate's) computer systems and resources, including but not limited to, data, servers, storage, personal computers, mobile devices, security systems, network systems, and Company software. Executive represents and covenants that he has returned to the Company (a) all physical, computerized, electronic or other types of records, documents, proposals, notes, lists, files and any and all other materials, including computerized electronic information, that refer, relate or otherwise pertain to the Company or any of its Affiliates that were in Executive's possession, subject to Executive's control or held by Executive for others; and (b) all property or equipment that Executive has been issued by the Company or any of its Affiliates during the course of his employment or property or equipment that Executive otherwise possessed, including any keys, credit cards, office or telephone equipment, computers, tablets, cell phones/smartphones, other devices, and automobile. Executive acknowledges that he is not authorized to retain any physical, computerized, electronic or other types of copies of any such physical, computerized, electronic or other types of records, documents,

proposals, notes, lists, files or materials, and is not authorized to retain any property or equipment of the Company or any of its Affiliates. Executive further agrees that Executive will immediately forward to the Company (and thereafter destroy any electronic copies thereof) any business information relating to the Company or any of its Affiliates that has been or is inadvertently directed to Executive following the date of the termination of Executive's employment. The Company will reasonably cooperate with Executive, if requested, to transfer to Executive the phone numbers associated with Executive's Company cell phones/smartphones.

11. **Non-Solicitation.** Executive agrees that he will not at any time after the Separation Date disrupt, damage, impair or interfere with the business of the Company in any manner, including, and without limitation, that he will not, at any time in the period of twenty-four (24) months after the Separation Date directly or indirectly through any other person solicit, induce or encourage, or attempt to solicit, induce or encourage, any employee, consultant, sales representative or another independent contractor of the Company or any Affiliate of the Company to leave the employ or service, as applicable, of the Company or such Affiliate, or become employed or engaged by any third party, or in any way interfere with the relationship between the Company or any such Affiliate, on the one hand, and any employee or independent contractor thereof, on the other hand.

12. **Miscellaneous.**

13.1 ***Governing Law.*** This Agreement shall be deemed to have been executed and delivered within the State of California, and the rights and obligations of the parties hereunder shall be construed and enforced in accordance with, and governed by, the laws of the State of California without regard to principles of conflict of laws.

13.2 ***Amendments.*** This Agreement may not be modified or amended, in whole or in part, except in a formal, definitive written agreement expressly referring to this Agreement, which agreement is signed by an authorized officer of the Company and by Executive.

13.3 ***No Waiver.*** Neither the failure nor any delay on the part of a party to exercise any right, remedy, power or privilege under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any right, remedy, power or privilege preclude any other or further exercise of the same or of any right, remedy, power or privilege, nor shall any waiver of any right, remedy, power or privilege with respect to any occurrence be construed as a waiver of such right, remedy, power or privilege with respect to any other occurrence. No waiver shall be binding unless in writing and signed by the party asserted to have granted such waiver.

13.4 ***Severability.*** It is the desire and intent of the parties hereto that the provisions of this Agreement be enforced to the fullest extent permissible under the laws and public policies applied in each jurisdiction in which enforcement is sought. Accordingly, if any particular provision of this Agreement shall be adjudicated by a court of competent jurisdiction or an arbitrator, as the case may be, to be invalid, prohibited or unenforceable under any present or future law, such provision, as to such jurisdiction, shall be ineffective, without invalidating the remaining provisions of this Agreement or affecting the validity or enforceability of such provision in any other jurisdiction, and to this end the provisions of this Agreement are declared to be severable; furthermore, in lieu of such invalid or unenforceable provision there will be added automatically as a part of this Agreement, a legal, valid and enforceable provision as similar in terms to such invalid or unenforceable provision as may be possible. Notwithstanding the foregoing, if such provision could be more narrowly drawn (as to geographic scope, period of duration or otherwise) so as not to be invalid, prohibited or unenforceable in such jurisdiction, it shall, as to such jurisdiction, be so narrowly drawn, without invalidating the remaining provisions of this Agreement or affecting the validity or enforceability of such provision in any other jurisdiction.

### 13.5. *Assignment and Successors.*

(a) This Agreement is personal to Executive and shall not be assignable by Executive. This Agreement shall be binding upon Executive's heirs, executors, administrators and other legal representatives. In the event Executive dies prior to receiving the full amount of the payments due to Executive pursuant to this Agreement, any remaining payments due to Executive shall be paid to Executive's estate.

(b) The Company may assign its rights and obligations under this Agreement, and this Agreement shall inure to the benefit of and be binding upon the Company and its respective successors and assigns. As used herein, "successor" and "assignee" shall include any person, firm, corporation or other business entity which at any time, whether by purchase, merger or otherwise, directly or indirectly acquires ownership of the Company or to which the Company assigns this Agreement by operation of law or otherwise.

13.6. ***Tax Matters.*** The Company and Executive intend that all payments made and benefits provided under this Agreement are either exempt from or comply with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended, the regulations and other guidance thereunder and any state law of similar effect (collectively "Section 409A") so that none of the payments or benefits will be subject to the adverse tax penalties imposed under Section 409A, and any ambiguities herein will be interpreted to be so exempt. The payments and benefits referenced and provided for in this Agreement are subject to all applicable withholding requirements, as such withholding is determined by the Company in good faith. Except for the Company's withholding right, Executive will be solely responsible for any and all taxes that may be due with respect to the payments and benefits referenced and provided for in this Agreement.

13.7. ***Entire Agreement.*** This Agreement, together with the Confidentiality Agreement, embodies the entire agreement of the parties hereto respecting the matters within its and their scope and is an integrated agreement. This Agreement, together with the Confidentiality Agreement, supersedes all prior or contemporaneous agreements of the parties hereto and that directly or indirectly bear upon the subject matter hereof or thereof (including, without limitation, the Offer Letter). Any prior negotiations, correspondence, agreements, proposals or understandings relating to the subject matter hereof, or of the Confidentiality Agreement, or of any portion of this Agreement or the Confidentiality Agreement, shall be deemed to have been merged into this Agreement and the Confidentiality Agreement, and to the extent inconsistent with this Agreement and the Confidentiality Agreement, such negotiations, correspondence, agreements, proposals, or understandings shall be deemed to be of no force or effect. This Agreement, together with the Confidentiality Agreement, is a fully integrated agreement. There are no representations, warranties, or agreements, whether express or implied, or oral or written, with respect to the subject matter of this Agreement or the Confidentiality Agreement, except as expressly set forth in this Agreement and the Confidentiality Agreement. Executive has no further rights, and the Company and its Affiliates have no further obligation, under or with respect to the Offer Letter. The award agreements referenced in Section 3 (and the plans and policies referenced in such award agreements), to the extent not inconsistent with Section 3, are outside of the scope of the preceding integration provisions of this Section 13.7 as to the applicable awards covered thereby.

13.8. ***Interpretation.*** Each party has cooperated in the drafting, negotiation and preparation of this Agreement. Hence, in any construction to be made of this Agreement, the same shall not be construed against any party on the basis that the party was the drafter.



13.9. **Review of Agreement.** Each party recognizes that this is a legally binding contract and acknowledges and agrees that it or he, as the case may be, has had the opportunity to consult with legal counsel of its or his own choice. Executive specifically agrees and acknowledges that he has read and understands this Agreement and the releases it contains, is entering into this Agreement freely and voluntarily, and has been advised to seek counsel prior to entering into this Agreement and has had ample opportunity to do so.

13.10. **Supplementary Documents.** All parties agree to cooperate fully and to execute any and all supplementary documents and to take all additional actions that may be necessary or appropriate to give full force to the basic terms and intent of this Agreement and which are not inconsistent with its terms.

13.11. **Headings; Construction.** The section and paragraph headings and titles contained in this Agreement are inserted for convenience only, and they neither form a part of this Agreement nor are they to be used in the construction or interpretation of this Agreement. Where the context requires, the singular shall include the plural, the plural shall include the singular, and any gender shall include all other genders and the neutral. Where specific language is used to clarify by example a general statement contained herein, such specific language shall not be deemed to modify, limit or restrict in any manner the construction of the general statement to which it relates.

13.12. **Counterparts.** This Agreement may be executed in counterparts, and each counterpart shall have the same force and effect as an original and shall constitute an effective, binding agreement on the part of each of the undersigned. Either party may execute this letter agreement by signing on the designated signature block below, and by transmitting such signature page via facsimile or e-mail (via PDF format) to the other party. Any signature made and transmitted by facsimile or e-mail (via PDF format) for the purpose of executing this letter agreement shall be deemed an original signature for purposes of this letter agreement, and shall be binding upon the party transmitting its or his signature by facsimile or e-mail (via PDF format).

13.13. **Arbitration.** The parties acknowledge and agree that any controversy or claim arising out of or relating to this Agreement, its enforcement or interpretation, or because of an alleged breach, default, or misrepresentation in connection with any of its provisions, or arising out of or relating in any way to Executive's employment or termination of employment with the Company, including, without limiting the generality of the foregoing, any alleged violation of statute, common law or public policy, shall be submitted to and be subject to final and binding arbitration in Los Angeles, California, conducted in accordance with the JAMS Employment Arbitration Rules set forth on JAMS website at <http://www.jamsadr.com/rules-employment-arbitration>; provided, however, that either the Company or Executive may seek provisional injunctive relief to ensure that the relief sought in arbitration is not rendered ineffectual by interim harm pending the arbitration. Notwithstanding the foregoing, either party shall be entitled to injunctive or other equitable relief to prevent a breach of the Confidentiality Agreement, or a breach of Section 8, 9, 10, or 11 of this Agreement. ***By executing this agreement, the Company and Executive are waiving their respective rights to a jury trial.***

13.14. **No Wrongdoing.** This Agreement constitutes a compromise and settlement of any and all potential disputed claims. No action taken by either Executive or the Company hereto, either previously or in connection with this Agreement, shall be deemed or construed to be: (a) an admission of the truth or falsity of any potential claims; or (b) an acknowledgment or admission by either party of any fault or liability whatsoever to the other or to any third party.

13.15. **No Liens.** Executive represents and warrants that (a) Executive has the capacity to act on his own behalf and on behalf of all who might claim through Executive to bind them to the terms and conditions of this Agreement; and (b) there are no liens or claims of any lien or assignment in law or equity or otherwise of or against any of the claims released in this Agreement.

*[The remainder of this page has intentionally been left blank. Signatures on the next page.]*

The undersigned have read the foregoing Separation and Release Agreement and each accept and agree to the provisions it contains and hereby execute it, effective as of the Separation Date, voluntarily with full understanding of its consequences.

EXECUTED this 1st day of December 2019, at Los Angeles County, California.

**“Executive”**

/s/Sandeep Reddy\_\_\_\_\_

Sandeep Reddy

EXECUTED this 1<sup>st</sup> day of December 2019, at Los Angeles County, California.

**“Company”**

GUESS?, INC.

/s/ Carlos Alberini\_\_\_\_\_

By: Carlos Alberini

Its: Chief Executive Officer

I, Carlos Alberini, certify that:

1. I have reviewed this annual on Form 10-K of Guess?, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 3, 2019

By: /s/ CARLOS ALBERINI

Carlos Alberini  
*Chief Executive Officer*

I, Kathryn Anderson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Guess?, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 3, 2019

By: /s/ KATHRYN ANDERSON

Kathryn Anderson  
*Chief Financial Officer*

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002

I, Carlos Alberini, Chief Executive Officer of Guess?, Inc. (the "Company"), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- the Quarterly Report on Form 10-Q of the Company for the period ended November 2, 2019, as filed with the Securities and Exchange Commission (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: December 3, 2019

By: /s/ CARLOS ALBERINI

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Carlos Alberini  
*Chief Executive Officer*

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002

I, Kathryn Anderson, Chief Financial Officer of Guess?, Inc. (the “Company”), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- the Quarterly Report on Form 10-Q of the Company for the period ended November 2, 2019, as filed with the Securities and Exchange Commission (the “Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: December 3, 2019

By: /s/ KATHRYN ANDERSON

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Kathryn Anderson  
*Chief Financial Officer*