

GENESCO INC
Form 10-Q
December 09, 2008

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**Securities and Exchange Commission
Washington, D.C. 20549
Form 10-Q**

(Mark One)

**Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934
For Quarter Ended November 1, 2008**

**Transition Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission File No. 1-3083**

Genesco Inc.

A Tennessee Corporation
I.R.S. No. 62-0211340
Genesco Park
1415 Murfreesboro Road
Nashville, Tennessee 37217-2895
Telephone 615/367-7000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

Common Shares Outstanding November 28, 2008 19,245,943



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and Subsidiaries**

Condensed Consolidated Balance Sheets

(In Thousands, except share amounts)

	November 1, 2008	February 2, 2008	November 3, 2007
Assets			
<i>Current Assets</i>			
Cash and cash equivalents	\$ 16,000	\$ 17,703	\$ 17,980
Accounts receivable, net of allowances of \$2,888 at November 1, 2008, \$1,767 at February 2, 2008 and \$2,418 at November 3, 2007	30,727	24,275	29,213
Inventories	379,614	300,548	395,965
Deferred income taxes	17,896	18,702	12,837
Prepays and other current assets	24,735	22,439	39,879
Total current assets	468,972	383,667	495,874
Property and equipment:			
Land	4,863	4,861	4,861
Buildings and building equipment	17,801	17,165	16,509
Computer hardware, software and equipment	78,497	76,700	74,668
Furniture and fixtures	97,917	93,703	90,314
Construction in progress	9,114	9,120	23,511
Improvements to leased property	276,034	263,184	250,800
Property and equipment, at cost	484,226	464,733	460,663
Accumulated depreciation	(238,862)	(217,492)	(210,643)
Property and equipment, net	245,364	247,241	250,020
Deferred income taxes	9,285	2,641	-0-
Goodwill	107,632	107,618	107,618
Trademarks	51,584	51,403	51,420
Other intangibles, net of accumulated amortization of \$7,991 at November 1, 2008, \$7,426 at February 2, 2008 and \$7,140 at November 3, 2007	916	1,486	1,772
Other noncurrent assets	8,108	10,500	10,714
Total Assets	\$ 891,861	\$ 804,556	\$ 917,418

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

Table of Contents**Genesco Inc.
and Subsidiaries**

Condensed Consolidated Balance Sheets

(In Thousands, except share amounts)

	November 1, 2008	February 2, 2008	November 3, 2007
Liabilities and Shareholders Equity			
<i>Current Liabilities</i>			
Accounts payable	\$ 153,043	\$ 75,302	\$ 138,844
Accrued income taxes	8,230	4,725	-0-
Accrued employee compensation	17,050	13,715	13,528
Accrued other taxes	12,627	10,576	10,486
Other accrued liabilities	29,388	35,470	32,681
Provision for discontinued operations	10,007	5,786	5,373
Total current liabilities	230,345	145,574	200,912
Long-term debt	135,920	155,220	215,220
Pension liability	3,690	6,572	12,656
Deferred rent and other long-term liabilities	80,397	74,067	75,356
Provision for discontinued operations	5,606	1,708	1,755
Total liabilities	455,958	383,141	505,899
Commitments and contingent liabilities			
<i>Shareholders Equity</i>			
Non-redeemable preferred stock	5,209	5,338	5,361
Common shareholders equity:			
Common stock, \$1 par value:			
Authorized: 80,000,000 shares			
Issued/Outstanding:			
November 1, 2008 19,734,483/19,246,019			
February 2, 2008 23,284,741/22,796,277			
November 3, 2007 23,284,029/22,795,565	19,734	23,285	23,284
Additional paid-in-capital	37,366	117,629	115,333
Retained earnings	408,754	309,030	305,833
Accumulated other comprehensive loss	(17,303)	(16,010)	(20,435)
Treasury shares, at cost	(17,857)	(17,857)	(17,857)
Total shareholders equity	435,903	421,415	411,519
Total Liabilities and Shareholders Equity	\$ 891,861	\$ 804,556	\$ 917,418

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

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and Subsidiaries**

Condensed Consolidated Statements of Earnings

(In Thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	
	November	November	November	November
	1,	3,	1,	3,
	2008	2007	2008	2007
Net sales	\$ 389,767	\$ 372,496	\$ 1,099,840	\$ 1,035,124
Cost of sales	191,853	184,445	539,207	511,610
Selling and administrative expenses	179,365	174,194	532,831	499,326
Gain from settlement of merger-related litigation	-0-	-0-	(204,075)	-0-
Restructuring and other, net	2,284	56	7,782	6,809
Earnings from operations	16,265	13,801	224,095	17,379
Interest expense, net				
Interest expense	2,509	3,544	7,105	9,025
Interest income	(29)	(40)	(308)	(119)
Total interest expense, net	2,480	3,504	6,797	8,906
Earnings before income taxes from continuing operations	13,785	10,297	217,298	8,473
Income tax provision	4,322	4,687	82,872	3,600
Earnings from continuing operations	9,463	5,610	134,426	4,873
Provision for discontinued operations, net	(25)	(10)	(5,479)	(1,235)
Net Earnings	\$ 9,438	\$ 5,600	\$ 128,947	\$ 3,638
Basic earnings per common share:				
Continuing operations	\$.51	\$.25	\$ 6.92	\$.21
Discontinued operations	\$ (.01)	\$.00	\$ (0.28)	\$ (.06)
Net earnings	\$.50	\$.25	\$ 6.64	\$.15
Diluted earnings per common share:				
Continuing operations	\$.43	\$.23	\$ 5.64	\$.20
Discontinued operations	\$.00	\$.00	\$ (0.23)	\$ (.05)
Net earnings	\$.43	\$.23	\$ 5.41	\$.15

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

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and Subsidiaries**

Condensed Consolidated Statements of Cash Flows

(In Thousands)

	Three Months Ended		Nine Months Ended	
	November	November	November	November
	1,	3,	1,	3,
	2008	2007	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net earnings	\$ 9,438	\$ 5,600	\$ 128,947	\$ 3,638
Tax benefit of stock options exercised	(128)	4	(157)	(134)
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:				
Depreciation	11,698	11,378	34,977	33,179
Receipt of Finish Line stock	-0-	-0-	(29,075)	-0-
Deferred income taxes	(6,433)	(167)	(5,697)	3,128
Provision for losses on accounts receivable	94	44	927	67
Impairment of long-lived assets	1,890	107	5,507	6,790
Share-based compensation and restricted stock	2,230	2,008	6,450	6,125
Provision for discontinued operations	45	17	9,010	2,028
Other	445	888	1,754	2,438
Effect on cash of changes in working capital and other assets and liabilities:				
Accounts receivable	(7,806)	(7,103)	(7,379)	(5,217)
Inventories	(51,628)	(48,391)	(79,066)	(134,928)
Prepays and other current assets	(1,228)	1,882	(2,296)	(19,613)
Accounts payable	12,918	15,175	72,514	79,313
Other accrued liabilities	(10,250)	4,817	(3,297)	(9,422)
Other assets and liabilities	3,826	4,065	9,165	1,662
Net cash (used in) provided by operating activities	(34,889)	(9,676)	142,284	(30,946)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Capital expenditures	(10,772)	(25,719)	(40,393)	(68,846)
Acquisitions, net of cash acquired	-0-	-0-	-0-	(34)
Proceeds from assets sales	9	-0-	13	6
Net cash used in investing activities	(10,763)	(25,719)	(40,380)	(68,874)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Payments of capital leases	(44)	(49)	(132)	(150)

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Tax benefit of stock options exercised	128	(4)	157	134
Shares repurchased	-0-	-0-	(90,903)	-0-
Change in overdraft balances	6,319	3,942	5,227	(5,551)
Borrowings under revolving credit facility	91,400	84,000	184,400	271,000
Payments on revolving credit facility	(61,700)	(57,000)	(203,700)	(165,000)
Dividends paid on non-redeemable preferred stock	(49)	(49)	(148)	(167)
Options exercised	1,315	406	1,492	795
Net cash provided by (used in) financing activities	37,369	31,246	(103,607)	101,061
Net (Decrease) Increase in Cash and Cash Equivalents	(8,283)	(4,149)	(1,703)	1,241
Cash and cash equivalents at beginning of period	24,283	22,129	17,703	16,739
Cash and cash equivalents at end of period	\$ 16,000	\$ 17,980	\$ 16,000	\$ 17,980

Supplemental Cash Flow Information:

Net cash paid for:

Interest	\$ 985	\$ 2,590	\$ 5,388	7,021
Income taxes	20,869	1,317	75,365	27,657

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

Table of Contents**Genesco Inc.
and Subsidiaries**Condensed Consolidated Statements of Shareholders' Equity
(In Thousands)

	Total Non-Redeemable Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Comprehensive Income	Total Share- holders Equity
Balance February 3, 2007	\$6,602	\$ 23,230	\$ 107,956	\$ 306,622	\$(21,327)	\$ (17,857)		\$ 405,226
Cumulative effect of change in accounting principle (FIN 48)	-0-	-0-	-0-	(4,260)	-0-	-0-	\$ -0-	(4,260)
Net earnings	-0-	-0-	-0-	6,885	-0-	-0-	6,885	6,885
Dividends paid on non-redeemable preferred stock	-0-	-0-	-0-	(217)	-0-	-0-	-0-	(217)
Exercise of stock options	-0-	33	551	-0-	-0-	-0-	-0-	584
Issue shares Employee Stock Purchase Plan	-0-	5	206	-0-	-0-	-0-	-0-	211
Employee and non-employee restricted stock	-0-	-0-	4,621	-0-	-0-	-0-	-0-	4,621
Share-based compensation	-0-	-0-	3,230	-0-	-0-	-0-	-0-	3,230
Restricted shares withheld for taxes	-0-	(19)	(887)	-0-	-0-	-0-	-0-	(906)
Tax benefit of stock options exercised	-0-	-0-	694	-0-	-0-	-0-	-0-	694
Conversion of Series 3 preferred stock	(533)	11	522	-0-	-0-	-0-	-0-	-0-
Conversion of Series 4 preferred stock	(561)	9	552	-0-	-0-	-0-	-0-	-0-
Gain on foreign currency forward contracts (net of tax of \$0.0 million)	-0-	-0-	-0-	-0-	37	-0-	37	37

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Pension liability adjustment (net of tax of \$2.7 million)	-0-	-0-	-0-	-0-	4,131	-0-	4,131	4,131
Postretirement liability adjustment (net of tax of \$0.4 million)	-0-	-0-	-0-	-0-	644	-0-	644	644
Foreign currency translation adjustment	-0-	-0-	-0-	-0-	505	-0-	505	505
Other	(170)	16	184	-0-	-0-	-0-	-0-	30
Comprehensive income							\$ 12,202	
Balance February 2, 2008	5,338	23,285	117,629	309,030	(16,010)	(17,857)		421,415
Net earnings	-0-	-0-	-0-	128,947	-0-	-0-	\$ 128,947	128,947
Dividends paid on non-redeemable preferred stock	-0-	-0-	-0-	(148)	-0-	-0-	-0-	(148)
Dividend declared	-0-	-0-	-0-	(29,075)	-0-	-0-	-0-	(29,075)
Finish Line stock	-0-	-0-	-0-	(29,075)	-0-	-0-	-0-	(29,075)
Exercise of stock options	-0-	83	1,355	-0-	-0-	-0-	-0-	1,438
Issue shares								
Employee Stock Purchase Plan	-0-	2	53	-0-	-0-	-0-	-0-	55
Employee and non-employee restricted stock	-0-	-0-	4,894	-0-	-0-	-0-	-0-	4,894
Share-based compensation	-0-	-0-	1,555	-0-	-0-	-0-	-0-	1,555
Restricted shares withheld for taxes	-0-	(53)	(1,086)	-0-	-0-	-0-	-0-	(1,139)
Tax benefit of stock options exercised	-0-	-0-	157	-0-	-0-	-0-	-0-	157
Shares repurchased	-0-	(4,000)	(86,903)	-0-	-0-	-0-	-0-	(90,903)
Restricted stock issuance	-0-	416	(416)	-0-	-0-	-0-	-0-	-0-
Loss on foreign currency forward contracts (net of tax of	-0-	-0-	-0-	-0-	(221)	-0-	(221)	(221)

\$0.1 million)

Foreign currency
translation

adjustment	-0-	-0-	-0-	-0-	(1,072)	-0-	(1,072)	(1,072)
Other	(129)	1	128	-0-	-0-	-0-	-0-	-0-

Comprehensive
income

\$ 127,654

Balance

**November 1,
2008**

\$5,209 \$ 19,734 \$ 37,366 \$ 408,754 \$(17,303) \$(17,857) \$ 435,903

* Comprehensive income was \$8.2 million and \$6.1 million for the third quarter ended November 1, 2008 and November 3, 2007, respectively.

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

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**Genesco Inc.
and Subsidiaries**

Notes to Condensed Consolidated Financial Statements

Note 1

Summary of Significant Accounting Policies

Interim Statements

The condensed consolidated financial statements contained in this report are unaudited but reflect all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the results for the interim periods of the fiscal year ending January 31, 2009 (Fiscal 2009) and of the fiscal year ended February 2, 2008 (Fiscal 2008). The results of operations for any interim period are not necessarily indicative of results for the full year. The interim financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K.

Nature of Operations

The Company's businesses include the design or sourcing, marketing and distribution of footwear, principally under the *Johnston & Murphy* and *Dockers* brands and the operation at November 1, 2008 of 2,228 *Journeys*, *Journeys Kidz*, *Shi by Journeys*, *Johnston & Murphy*, *Underground Station*, *Hat World*, *Lids*, *Hat Shack*, *Hat Zone*, *Head Quarters*, *Cap Connection* and *Lids Kids* retail footwear and headwear stores.

Principles of Consolidation

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

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant areas requiring management estimates or judgments include the following key financial areas:

Inventory Valuation

The Company values its inventories at the lower of cost or market.

In its wholesale operations, cost is determined using the first-in, first-out (FIFO) method. Market is determined using a system of analysis which evaluates inventory at the stock number level based on factors such as inventory turn, average selling price, inventory level, and selling prices reflected in future orders. The Company provides reserves when the inventory has not been marked down to market based on current selling prices or when the inventory is not turning and is not expected to turn at levels satisfactory to the Company.

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**Genesco Inc.
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Notes to Condensed Consolidated Financial Statements

Note 1

Summary of Significant Accounting Policies, Continued

In its retail operations, other than the Hat World segment, the Company employs the retail inventory method, applying average cost-to-retail ratios to the retail value of inventories. Under the retail inventory method, valuing inventory at the lower of cost or market is achieved as markdowns are taken or accrued as a reduction of the retail value of inventories.

Inherent in the retail inventory method are subjective judgments and estimates, including merchandise mark-on, markups, markdowns, and shrinkage. These judgments and estimates, coupled with the fact that the retail inventory method is an averaging process, could produce a range of cost figures. To reduce the risk of inaccuracy and to ensure consistent presentation, the Company employs the retail inventory method in multiple subclasses of inventory, and analyzes markdown requirements at the stock number level based on factors such as inventory turn, average selling price, and inventory age. In addition, the Company accrues markdowns as necessary. These additional markdown accruals reflect all of the above factors as well as current agreements to return products to vendors and vendor agreements to provide markdown support. In addition to markdown provisions, the Company maintains provisions for shrinkage and damaged goods based on historical rates.

The Hat World segment employs the moving average cost method for valuing inventories and applies freight using an allocation method. The Company provides a valuation allowance for slow-moving inventory based on negative margins and estimated shrinkage based on historical experience and specific analysis, where appropriate.

Inherent in the analysis of both wholesale and retail inventory valuation are subjective judgments about current market conditions, fashion trends, and overall economic conditions. Failure to make appropriate conclusions regarding these factors may result in an overstatement or understatement of inventory value.

Impairment of Long-Lived Assets

The Company periodically assesses the realizability of its long-lived assets and evaluates such assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Asset impairment is determined to exist if estimated future cash flows, undiscounted and without interest charges, are less than the carrying amount. Inherent in the analysis of impairment are subjective judgments about future cash flows. Failure to make appropriate conclusions regarding these judgments may result in an overstatement or understatement of the value of long-lived assets. See also Note 3.

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Notes to Condensed Consolidated Financial Statements

Note 1

Summary of Significant Accounting Policies, Continued

Environmental and Other Contingencies

The Company is subject to certain loss contingencies related to environmental proceedings and other legal matters, including those disclosed in Note 10. The Company has made pretax accruals for certain of these contingencies, including approximately \$0.1 million in each of the third quarters of Fiscal 2009 and Fiscal 2008 and \$9.3 million and \$2.2 million for the first nine months of Fiscal 2009 and Fiscal 2008, respectively. These charges are included in provision for discontinued operations, net in the Condensed Consolidated Statements of Earnings (see Note 3). The Company monitors these matters on an ongoing basis and, on a quarterly basis, management reviews the Company's reserves and accruals in relation to each of them, adjusting provisions as management deems necessary in view of changes in available information. Changes in estimates of liability are reported in the periods when they occur. Consequently, management believes that its reserve in relation to each proceeding is a best estimate of probable loss connected to the proceeding, or in cases in which no best estimate is possible, the minimum amount in the range of estimated losses, based upon its analysis of the facts and circumstances as of the close of the most recent fiscal quarter. However, because of uncertainties and risks inherent in litigation generally and in environmental proceedings in particular, there can be no assurance that future developments will not require additional reserves to be set aside, that some or all reserves will be adequate or that the amounts of any such additional reserves or any such inadequacy will not have a material adverse effect upon the Company's financial condition or results of operations.

Revenue Recognition

Retail sales are recorded at the point of sale and are net of estimated returns and exclude sales taxes. Catalog and internet sales are recorded at time of delivery to the customer and are net of estimated returns and exclude sales taxes. Wholesale revenue is recorded net of estimated returns and allowances for markdowns, damages and miscellaneous claims when the related goods have been shipped and legal title has passed to the customer. Shipping and handling costs charged to customers are included in net sales. Estimated returns are based on historical returns and claims. Actual amounts of markdowns have not differed materially from estimates. Actual returns and claims in any future period may differ from historical experience.

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Notes to Condensed Consolidated Financial Statements

Note 1

Summary of Significant Accounting Policies, Continued

Income Taxes

As part of the process of preparing Condensed Consolidated Financial Statements, the Company is required to estimate its income taxes in each of the tax jurisdictions in which it operates. This process involves estimating actual current tax obligations together with assessing temporary differences resulting from differing treatment of certain items for tax and accounting purposes, such as depreciation of property and equipment and valuation of inventories. These temporary differences result in deferred tax assets and liabilities, which are included within the Condensed Consolidated Balance Sheets. The Company then assesses the likelihood that its deferred tax assets will be recovered from future taxable income. Actual results could differ from this assessment if adequate taxable income is not generated in future periods. To the extent the Company believes that recovery of an asset is at risk, valuation allowances are established. To the extent valuation allowances are established or increase in a period, the Company includes an expense within the tax provision in the Condensed Consolidated Statements of Earnings.

Income tax reserves are determined using the methodology established by the Financial Accounting Standards Board (FASB) Interpretation 48, Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement 109 (FIN 48). FIN 48, which was adopted by the Company as of February 4, 2007, requires companies to assess each income tax position taken using a two step process. A determination is first made as to whether it is more likely than not that the position will be sustained, based upon the technical merits, upon examination by the taxing authorities. If the tax position is expected to meet the more likely than not criteria, the benefit recorded for the tax position equals the largest amount that is greater than 50% likely to be realized upon ultimate settlement of the respective tax position. Uncertain tax positions require determinations and estimated liabilities to be made based on provisions of the tax law which may be subject to change or varying interpretation. If the Company's determinations and estimates prove to be inaccurate, the resulting adjustments could be material to its future financial results.

Postretirement Benefits Plan Accounting

Substantially all current full-time employees (except employees in the Hat World segment), who also had 1,000 hours of service in calendar year 2004, are covered by a defined benefit pension plan. The Company froze the defined benefit pension plan effective January 1, 2005. The Company also provides certain former employees with limited medical and life insurance benefits. The Company funds at least the minimum amount required by the Employee Retirement Income Security Act.

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Notes to Condensed Consolidated Financial Statements

Note 1

Summary of Significant Accounting Policies, Continued

In September 2006, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R) (SFAS No. 158) which requires companies to recognize the overfunded or underfunded status of postretirement benefit plans as an asset or liability in their condensed consolidated balance sheets and to recognize changes in that funded status in accumulated other comprehensive loss, net of tax, in the year in which the changes occur. This statement did not change the accounting for plans required by SFAS No. 87, Employers Accounting for Pensions (SFAS No. 87) and it did not eliminate any of the expanded disclosures required by SFAS No. 132(R),

Employers Disclosures about Pensions and Other Postretirement Benefits. On February 3, 2007, the Company adopted the recognition and disclosure provisions of SFAS No. 158. As a result of the adoption of SFAS No. 158, the Company recognized a \$0.8 million (net of tax) cumulative adjustment in accumulated other comprehensive loss in shareholders equity for Fiscal 2007 related to the Company s post-retirement medical and life insurance benefits. SFAS No. 158 also requires companies to measure the funded status of a plan as of the date of its fiscal year end. This requirement of SFAS No. 158 is effective for the Company in Fiscal 2009. The Company does not believe the adoption of the measurement date will have a material impact on the Company s results of operations or financial position.

The Company accounts for the defined benefit pension plans using SFAS No. 87, as amended. As permitted under SFAS No. 87, pension expense is recognized on an accrual basis over employees approximate service periods. The calculation of pension expense and the corresponding liability requires the use of a number of critical assumptions, including the expected long-term rate of return on plan assets and the assumed discount rate, as well as the recognition of actuarial gains and losses. Changes in these assumptions can result in different expense and liability amounts, and future actual experience can differ from these assumptions.

Share-Based Compensation

The Company has share-based compensation plans covering certain members of management and non-employee directors. Pursuant to SFAS No. 123 (revised 2004), Share-Based Payment (SFAS No. 123(R)), the Company recognizes compensation expense for share-based payments based on the fair value of the awards. For the third quarter of Fiscal 2009 and 2008, share-based compensation expense was \$0.5 million and \$0.8 million, respectively. For the third quarter of Fiscal 2009 and 2008, restricted stock expense was \$1.7 million and \$1.2 million, respectively. For the first nine months of Fiscal 2009 and 2008, share-based compensation expense was \$1.6 million and \$2.6 million, respectively. For the first nine months of Fiscal 2009 and 2008, restricted stock expense was \$4.9 million and \$3.5 million, respectively. The benefits of tax deductions in excess of recognized compensation expense are reported as a financing cash flow.

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Notes to Condensed Consolidated Financial Statements

Note 1**Summary of Significant Accounting Policies, Continued**

The Company estimates the fair value of each option award on the date of grant using a Black-Scholes option pricing model. The application of this valuation model involves assumptions that are judgmental and highly sensitive in the determination of compensation expense, including expected stock price volatility. The Company bases expected volatility on historical term structures. The Company bases the risk free rate on an interest rate for a bond with a maturity commensurate with the expected term estimate. The Company estimates the expected term of stock options using historical exercise and employee termination experience. The Company does not currently pay a dividend on common stock. The fair value of employee restricted stock is determined based on the closing price of the Company's stock on the date of the grant.

In addition to the key assumptions used in the Black-Scholes model, the estimated forfeiture rate at the time of valuation (which is based on historical experience for similar options) is a critical assumption, as it reduces expense ratably over the vesting period. Share-based compensation expense is recorded based on a 2% expected forfeiture rate and is adjusted annually for actual forfeitures. The Company reviews the expected forfeiture rate annually to determine if that percent is still reasonable based on historical experience. The Company believes its estimates are reasonable in the context of actual (historical) experience.

The Company did not grant stock options for the three months and nine months ended November 1, 2008. The Company granted zero shares and 2,351 shares of stock options for the three months and nine months ended November 3, 2007, respectively, at a weighted average exercise price of \$42.82 and a weighted average fair value of \$16.28. During the three months and nine months ended November 1, 2008, the Company issued zero shares and 397,273 shares, respectively, of employee restricted stock which vest over a three-year term. The Company issued 26,057 employee restricted shares during the three months ended August 2, 2008 at a grant date fair value of \$29.74 per share and issued 371,216 employee restricted shares during the three months ended May 3, 2008 at a grant date fair value of \$20.16 per share. During the three and nine months ended November 3, 2007, the Company issued zero shares and 3,547 shares, respectively, of employee restricted stock which vest over a four-year term and had a grant date fair value of \$42.82 per share. For the three months and nine months ended November 1, 2008, the Company issued zero shares and 18,792 shares, respectively, of director restricted stock at a weighted average exercise price of \$28.72. The Company did not issue any director restricted stock for the three or nine months ended November 3, 2007. For the three and nine months ended November 1, 2008 and November 3, 2007, the Company did not issue any shares of director retainer stock.

Cash and Cash Equivalents

Included in cash and cash equivalents at November 1, 2008, February 2, 2008 and November 3, 2007 are cash equivalents of \$0.1 million, \$0.4 million and \$1.0 million, respectively. Cash equivalents are highly-liquid financial instruments having an original maturity of three months or less. The majority of payments due from banks for customer credit card transactions process within 24 - 48 hours and are accordingly classified as cash and cash equivalents.

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Notes to Condensed Consolidated Financial Statements

Note 1**Summary of Significant Accounting Policies, Continued**

At November 1, 2008, February 2, 2008 and November 3, 2007 outstanding checks drawn on zero-balance accounts at certain domestic banks exceeded book cash balances at those banks by approximately \$31.6 million, \$26.4 million and \$10.2 million, respectively. These amounts are included in accounts payable on the Condensed Consolidated Balance Sheets.

Concentration of Credit Risk and Allowances on Accounts Receivable

The Company's footwear wholesale businesses sell primarily to independent retailers and department stores across the United States. Receivables arising from these sales are not collateralized. Customer credit risk is affected by conditions or occurrences within the economy and the retail industry as well as by customer specific factors. One customer accounted for 16% and no other customer accounted for more than 9% of the Company's trade receivables balance as of November 1, 2008.

The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information, as well as other customer specific factors. The Company also establishes allowances for sales returns, customer deductions and co-op advertising based on specific circumstances, historical trends and projected probable outcomes.

Property and Equipment

Property and equipment are recorded at cost and depreciated or amortized over the estimated useful life of related assets. Depreciation and amortization expense are computed principally by the straight-line method over the following estimated useful lives:

Buildings and building equipment	20-45 years
Computer hardware, software and equipment	3-10 years
Furniture and fixtures	10 years

Leases

Leasehold improvements and properties under capital leases are amortized on the straight-line method over the shorter of their useful lives or their related lease terms and the charge to earnings is included in selling and administrative expenses in the Condensed Consolidated Statements of Earnings.

Certain leases include rent increases during the initial lease term. For these leases, the Company recognizes the related rental expense on a straight-line basis over the term of the lease (which includes any rent holidays and the pre-opening period of construction, renovation, fixturing and merchandise placement) and records the difference between the amounts charged to operations and amounts paid as a rent liability.

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**Genesco Inc.
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Notes to Condensed Consolidated Financial Statements

Note 1

Summary of Significant Accounting Policies, Continued

The Company occasionally receives reimbursements from landlords to be used towards construction of the store the Company intends to lease. Leasehold improvements are recorded at their gross costs including items reimbursed by landlords. The reimbursements are amortized as a reduction of rent expense over the initial lease term. Tenant allowances of \$25.5 million, \$25.5 million and \$25.6 million at November 1, 2008, February 2, 2008 and November 3, 2007, respectively, and deferred rent of \$28.6 million, \$26.3 million and \$25.8 million at November 1, 2008, February 2, 2008 and November 3, 2007, respectively, are included in deferred rent and other long-term liabilities on the Condensed Consolidated Balance Sheets.

Goodwill and Other Intangibles

Under the provisions of SFAS No. 142, Goodwill and Other Intangible Assets, (SFAS No. 142), goodwill and intangible assets with indefinite lives are not amortized, but are tested at least annually for impairment. SFAS No. 142 also requires that intangible assets with finite lives be amortized over their respective lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144).

Intangible assets of the Company with indefinite lives are primarily goodwill and identifiable trademarks acquired in connection with the acquisition of Hat World Corporation on April 1, 2004 and Hat Shack, Inc. on January 11, 2007. The Condensed Consolidated Balance Sheets include goodwill for the Hat World Group of \$107.6 million at November 1, 2008, February 2, 2008 and November 3, 2007. The Company tests for impairment of intangible assets with an indefinite life, at a minimum on an annual basis, relying on a number of factors including operating results, business plans and projected future cash flows. The impairment test for identifiable assets not subject to amortization consists of a comparison of the fair value of the intangible asset with its carrying amount.

Identifiable intangible assets of the Company with finite lives are primarily in-place leases and customer lists. They are subject to amortization based upon their estimated useful lives. Finite-lived intangible assets are evaluated for impairment using a process similar to that used to evaluate other definite-lived long-lived assets, a comparison of the fair value of the intangible asset with its carrying amount. An impairment loss is recognized for the amount by which the carrying value exceeds the fair value of the asset.

Cost of Sales

For the Company's retail operations, the cost of sales includes actual product cost, the cost of transportation to the Company's warehouses from suppliers and the cost of transportation from the Company's warehouses to the stores. Additionally, the cost of its distribution facilities allocated to its retail operations is included in cost of sales.

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Notes to Condensed Consolidated Financial Statements

Note 1

Summary of Significant Accounting Policies, Continued

For the Company's wholesale operations, the cost of sales includes the actual product cost and the cost of transportation to the Company's warehouses from suppliers.

Selling and Administrative Expenses

Selling and administrative expenses include all operating costs of the Company excluding (i) those related to the transportation of products from the supplier to the warehouse, (ii) for its retail operations, those related to the transportation of products from the warehouse to the store and (iii) costs of its distribution facilities which are allocated to its retail operations. Wholesale and unallocated retail costs of distribution are included in selling and administrative expenses in the amounts of \$1.0 million for the third quarter of each of Fiscal 2009 and Fiscal 2008 and \$2.7 million and \$2.5 million for the first nine months of Fiscal 2009 and Fiscal 2008, respectively.

Gift Cards

The Company has a gift card program that began in calendar 1999 for its Hat World operations and calendar 2000 for its footwear operations. The gift cards issued to date do not expire. As such, the Company recognizes income when: (i) the gift card is redeemed by the customer; or (ii) the likelihood of the gift card being redeemed by the customer for the purchase of goods in the future is remote and there are no related escheat laws (referred to as breakage). The gift card breakage rate is based upon historical redemption patterns and income is recognized for unredeemed gift cards in proportion to those historical redemption patterns.

The Company recognized income of \$0.6 million in the fourth quarter of Fiscal 2007 due to the Company's belief that it had sufficient historical information to support the recognition of gift card breakage after a review of state escheat laws in which it operates. This initial recognition of gift card breakage was included as a reduction in restructuring and other, net on the Condensed Consolidated Statements of Earnings. Effective February 4, 2007, gift card breakage is recognized in revenues each period. Gift card breakage recognized as revenue was less than \$0.1 million and \$0.1 million for the third quarter of Fiscal 2009 and 2008, respectively, and \$0.2 million for each of the first nine months of Fiscal 2009 and 2008. The Condensed Consolidated Balance Sheets include an accrued liability for gift cards of \$5.6 million, \$7.5 million and \$5.0 million at November 1, 2008, February 2, 2008 and November 3, 2007, respectively.

Buying, Merchandising and Occupancy Costs

The Company records buying, merchandising and occupancy costs in selling and administrative expense. Because the Company does not include these costs in cost of sales, the Company's gross margin may not be comparable to other retailers that include these costs in the calculation of gross margin.

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**Genesco Inc.
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Notes to Condensed Consolidated Financial Statements

Note 1

Summary of Significant Accounting Policies, Continued

Shipping and Handling Costs

Shipping and handling costs related to inventory purchased from suppliers is included in the cost of inventory and is charged to cost of sales in the period that the inventory is sold. All other shipping and handling costs are charged to cost of sales in the period incurred except for wholesale and unallocated retail costs of distribution, which are included in selling and administrative expenses.

Preopening Costs

Costs associated with the opening of new stores are expensed as incurred, and are included in selling and administrative expenses on the accompanying Condensed Consolidated Statements of Earnings.

Store Closings and Exit Costs

From time to time, the Company makes strategic decisions to close stores or exit locations or activities. If stores or operating activities to be closed or exited constitute components, as defined by SFAS No. 144, and will not result in a migration of customers and cash flows, these closures will be considered discontinued operations when the related assets meet the criteria to be classified as held for sale, or at the cease-use date, whichever occurs first. The results of operations of discontinued operations are presented retroactively, net of tax, as a separate component on the Condensed Consolidated Statements of Earnings, if material individually or cumulatively. To date, no store closings meeting the discontinued operations criteria have been material individually or cumulatively.

Assets related to planned store closures or other exit activities are reflected as assets held for sale and recorded at the lower of carrying value or fair value less costs to sell when the required criteria, as defined by SFAS No. 144, are satisfied. Depreciation ceases on the date that the held for sale criteria are met.

Assets related to planned store closures or other exit activities that do not meet the criteria to be classified as held for sale are evaluated for impairment in accordance with the Company's normal impairment policy, but with consideration given to revised estimates of future cash flows. In any event, the remaining depreciable useful lives are evaluated and adjusted as necessary.

Exit costs related to anticipated lease termination costs, severance benefits and other expected charges are accrued for and recognized in accordance with SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities.

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Notes to Condensed Consolidated Financial Statements

Note 1**Summary of Significant Accounting Policies, Continued*****Advertising Costs***

Advertising costs are predominantly expensed as incurred. Advertising costs were \$8.9 million and \$8.8 million for the third quarter of Fiscal 2009 and 2008, respectively, and \$25.5 million and \$25.1 million for the first nine months of Fiscal 2009 and 2008, respectively. Direct response advertising costs for catalogs are capitalized in accordance with the American Institute of Certified Public Accountants (AICPA) Statement of Position No. 93-7, Reporting on Advertising Costs. Such costs are amortized over the estimated future revenues realized from such advertising, not to exceed six months. The Condensed Consolidated Balance Sheets include prepaid assets for direct response advertising costs of \$2.7 million, \$1.4 million and \$2.3 million at November 1, 2008, February 2, 2008 and November 3, 2007, respectively.

Consideration to Resellers

The Company does not have any written buy-down programs with retailers, but the Company has provided certain retailers with markdown allowances for obsolete and slow moving products that are in the retailer's inventory. The Company estimates these allowances and provides for them as reductions to revenues at the time revenues are recorded. Markdowns are negotiated with retailers and changes are made to the estimates as agreements are reached. Actual amounts for markdowns have not differed materially from estimates.

Cooperative Advertising

Cooperative advertising funds are made available to all of the Company's wholesale customers. In order for retailers to receive reimbursement under such programs, the retailer must meet specified advertising guidelines and provide appropriate documentation of expenses to be reimbursed. The Company's cooperative advertising agreements require that wholesale customers present documentation or other evidence of specific advertisements or display materials used for the Company's products by submitting the actual print advertisements presented in catalogs, newspaper inserts or other advertising circulars, or by permitting physical inspection of displays. Additionally, the Company's cooperative advertising agreements require that the amount of reimbursement requested for such advertising or materials be supported by invoices or other evidence of the actual costs incurred by the retailer. The Company accounts for these cooperative advertising costs as selling and administrative expenses, in accordance with Emerging Issues Task Force (EITF) Issue No. 01-9, Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products).

Cooperative advertising costs recognized in selling and administrative expenses were \$0.7 million and \$1.1 million for the third quarter of Fiscal 2009 and 2008, respectively, and \$1.9 million and \$2.4 million for the first nine months of Fiscal 2009 and 2008, respectively. During the first nine months of Fiscal 2009 and 2008, the Company's cooperative advertising reimbursements paid did not exceed the fair value of the benefits received under those agreements.

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**Genesco Inc.
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Notes to Condensed Consolidated Financial Statements

Note 1

Summary of Significant Accounting Policies, Continued

Vendor Allowances

From time to time, the Company negotiates allowances from its vendors for markdowns taken or expected to be taken. These markdowns are typically negotiated on specific merchandise and for specific amounts. These specific allowances are recognized as a reduction in cost of sales in the period in which the markdowns are taken. Markdown allowances not attached to specific inventory on hand or already sold are applied to concurrent or future purchases from each respective vendor.

The Company receives support from some of its vendors in the form of reimbursements for cooperative advertising and catalog costs for the launch and promotion of certain products. The reimbursements are agreed upon with vendors and represent specific, incremental, identifiable costs incurred by the Company in selling the vendor's specific products. Such costs and the related reimbursements are accumulated and monitored on an individual vendor basis, pursuant to the respective cooperative advertising agreements with vendors. Such cooperative advertising reimbursements are recorded as a reduction of selling and administrative expenses in the same period in which the associated expense is incurred. If the amount of cash consideration received exceeds the costs being reimbursed, such excess amount would be recorded as a reduction of cost of sales.

Vendor reimbursements of cooperative advertising costs recognized as a reduction of selling and administrative expenses were \$0.3 million and \$0.2 million for the third quarter of Fiscal 2009 and 2008, respectively, and \$2.4 million and \$2.6 million for the first nine months of Fiscal 2009 and 2008, respectively. During the third quarter of Fiscal 2009 and 2008, the Company's cooperative advertising reimbursements received were not in excess of the costs incurred.

Environmental Costs

Environmental expenditures relating to current operations are expensed or capitalized as appropriate. Expenditures relating to an existing condition caused by past operations, and which do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessments and/or remedial efforts are probable and the costs can be reasonably estimated and are evaluated independently of any future claims for recovery. Generally, the timing of these accruals coincides with completion of a feasibility study or the Company's commitment to a formal plan of action. Costs of future expenditures for environmental remediation obligations are not discounted to their present value.

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**Genesco Inc.
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Notes to Condensed Consolidated Financial Statements

Note 1

Summary of Significant Accounting Policies, Continued

Earnings Per Common Share

Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities to issue common stock were exercised or converted to common stock (see Note 9).

Other Comprehensive Income

SFAS No. 130, Reporting Comprehensive Income, requires, among other things, the Company's pension liability adjustment, postretirement liability adjustment, unrealized gains or losses on foreign currency forward contracts and foreign currency translation adjustments to be included in other comprehensive income net of tax. Accumulated other comprehensive loss at November 1, 2008 consisted of \$16.7 million of cumulative pension liability adjustments, net of tax and a \$0.2 million cumulative postretirement liability adjustment, net of tax, and a foreign currency translation adjustment of \$0.5 million, offset by cumulative net gains of \$39,000 on foreign currency forward contracts, net of tax.

Business Segments

SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, requires that companies disclose operating segments based on the way management disaggregates the Company's operations for making internal operating decisions (see Note 11).

Derivative Instruments and Hedging Activities

SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, SFAS No. 137, Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of SFAS No. 133, SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities and SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities, (collectively SFAS No. 133) require an entity to recognize all derivatives as either assets or liabilities in the condensed consolidated balance sheet and to measure those instruments at fair value. Under certain conditions, a derivative may be specifically designated as a fair value hedge or a cash flow hedge. The accounting for changes in the fair value of a derivative are recorded each period in current earnings or in other comprehensive income depending on the intended use of the derivative and the resulting designation.

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Notes to Condensed Consolidated Financial Statements

Note 1

Summary of Significant Accounting Policies, Continued

New Accounting Principles

The Company adopted SFAS No. 157, Fair Value Measurements, (SFAS No. 157) as of February 3, 2008, with the exception of the application of the statement of non-recurring, nonfinancial assets and liabilities. The adoption of SFAS No. 157 did not have a material impact on the Company's results of operations or financial position. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. In February 2008, the FASB issued FASB Staff Position No. FAS 157-b, Effective Date of FASB Statement No. 157, (FSP 157-b). FSP 157-b amended SFAS No. 157, to delay the effective date for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (that is, at least annually). FSP 157-b defers the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008 (Fiscal 2010 for the Company), and interim periods within those fiscal years for items within the scope of the FSP. See Note 6 for additional information.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option of Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115 (SFAS No. 159). SFAS No. 159 allows companies to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The Company adopted SFAS No. 159 as of February 3, 2008 and did not elect the fair value option to measure certain financial instruments. Accordingly, the adoption of SFAS No. 159 did not have a material impact on the Company's results of operations or financial position.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities An Amendment of SFAS No. 133 (SFAS No. 161). SFAS 161 seeks to improve financial reporting for derivative instruments and hedging activities by requiring enhanced disclosures regarding the impact on financial position, financial performance, and cash flows. To achieve this increased transparency, SFAS 161 requires (1) the disclosure of the fair value of derivative instruments and gains and losses in a tabular format; (2) the disclosure of derivative features that are credit risk-related; and (3) cross-referencing within the footnotes. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008 (Fiscal 2010 for the Company). The Company does not believe the adoption of SFAS 161 will have a material impact on its results of operations or financial position.

In May 2008, the FASB issued FASB Staff Position APB 14-1, Accounting for Convertible Debt Instruments That May be Settled in Cash Upon Conversion, (including partial cash settlement), (FSP APB 14-1). FSP APB 14-1 requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer's nonconvertible debt borrowing rate. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008 (Fiscal 2010 for the Company), and interim periods within those fiscal years. The Company is currently evaluating the impact that the adoption of FSP APB 14-1 will have on its results of operations and financial position.

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Notes to Condensed Consolidated Financial Statements

Note 2

Terminated Merger Agreement

The Company announced in June 2007 that the boards of directors of both Genesco and The Finish Line, Inc. had unanimously approved a definitive merger agreement under which The Finish Line would acquire all of the outstanding common shares of Genesco at \$54.50 per share in cash (the Proposed Merger). The Finish Line refused to close the Proposed Merger and litigation ensued. The Proposed Merger and related agreement were terminated in March 2008 in connection with an agreement to settle the litigation with The Finish Line and UBS Loan Finance LLC and UBS Securities LLC (collectively, UBS) for a cash payment of \$175.0 million to the Company and a 12% equity stake in The Finish Line, which the Company received in the first quarter of Fiscal 2009. The Company distributed the 12% equity stake, or 6,518,971 shares of Class A Common Stock of The Finish Line Inc., on June 13, 2008, to its common shareholders of record on May 30, 2008, as required by the settlement agreement.

During the third quarter and first nine months of Fiscal 2009, the Company expensed \$0.2 million and \$7.8 million, respectively, in merger-related litigation costs. During the third quarter and first nine months of Fiscal 2008, the Company expensed \$6.1 million and \$11.6 million, respectively, in merger-related costs and litigation expenses. The total merger-related costs and litigation expenses for Fiscal 2008 of \$27.6 million are tax deductible in Fiscal 2009 and will result in a permanent tax benefit reflected as a component of income tax expense. For additional information, see the Merger-Related Litigation section in Note 10.

Note 3

Restructuring and Other Charges and Discontinued Operations

Restructuring and Other Charges

In accordance with Company policy, assets are determined to be impaired when the revised estimated future cash flows, undiscounted and without interest charges, are insufficient to recover the carrying costs. Impairment charges represent the excess of the carrying value over the fair value of those assets.

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

The Company recorded a pretax charge to earnings of \$2.3 million in the third quarter of Fiscal 2009. The charge included \$1.9 million in retail store asset impairments and \$0.4 million for lease terminations. The Company recorded a pretax charge to earnings of \$7.8 million in the first nine months of Fiscal 2009. The charge included \$5.5 million in retail store asset impairments, \$1.2 million for lease terminations and \$1.1 million in other legal matters.

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Notes to Condensed Consolidated Financial Statements

Note 3**Restructuring and Other Charges and Discontinued Operations, Continued**

The Company recorded a pretax charge to earnings of \$0.1 million in the third quarter of Fiscal 2008. The charge was primarily for retail store asset impairments. The Company recorded a pretax charge to earnings of \$6.8 million in the first nine months of Fiscal 2008. The charge included \$6.8 million of charges for retail store asset impairments, primarily in the Underground Station Group, and \$0.3 million for the lease termination of one Hat World store, offset by a \$0.3 million excise tax refund.

Discontinued Operations

For the nine months ended November 1, 2008, the Company recorded an additional pretax charge to earnings of \$9.0 million (\$5.5 million net of tax) reflected in discontinued operations primarily for an environmental liability relating to settlement negotiations with the Environmental Protection Agency concerning the site of a factory in New York, which the Company operated in the late 1960 s.

Accrued Provision for Discontinued Operations

In thousands	Facility Shutdown Costs
Balance February 3, 2007	\$ 6,065
Additional provision Fiscal 2008	2,633
Charges and adjustments, net	(1,204)
Balance February 2, 2008	7,494
Additional provision Fiscal 2009	9,010
Charges and adjustments, net	(891)
Balance November 1, 2008*	15,613
Current provision for discontinued operations	10,007
Total Noncurrent Provision for Discontinued Operations	\$ 5,606

* Includes a \$16.0 million environmental provision, including \$9.9 million in current provision, for discontinued operations.

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Notes to Condensed Consolidated Financial Statements

Note 4**Inventories**

In thousands	November 1, 2008	February 2, 2008
Raw materials	\$ 236	\$ 204
Wholesale finished goods	40,482	31,081
Retail merchandise	338,896	269,263
Total Inventories	\$ 379,614	\$ 300,548

Note 5**Derivative Instruments and Hedging Activities**

In order to reduce exposure to foreign currency exchange rate fluctuations in connection with inventory purchase commitments for its Johnston & Murphy Group (primarily the Euro), the Company enters into foreign currency forward exchange contracts with a maximum hedging period of twelve months. Derivative instruments used as hedges must be effective at reducing the risk associated with the exposure being hedged. The settlement terms of the forward contracts correspond with the expected payment terms for the merchandise inventories. As a result, there is no hedge ineffectiveness to be reflected in earnings. The notional amount of such contracts outstanding at November 1, 2008 and February 2, 2008 was \$1.5 million and \$2.5 million, respectively. Forward exchange contracts have an average remaining term of approximately one month. The loss based on spot rates under these contracts at November 1, 2008 was \$0.2 million and the gain based on spot rates under these contracts at February 2, 2008 was \$41,000. For the nine months ended November 1, 2008, the Company recorded an unrealized loss on foreign currency forward contracts of \$0.4 million and for the nine months ended November 3, 2007, the Company recorded an unrealized gain on foreign currency forward contracts of \$0.2 million in accumulated other comprehensive loss, before taxes. The Company monitors the credit quality of the major national and regional financial institutions with which it enters into such contracts.

The Company estimates that the majority of net hedging losses related to forward exchange contracts will be reclassified from accumulated other comprehensive loss into earnings through higher cost of sales over the succeeding year.

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Notes to Condensed Consolidated Financial Statements

Note 6**Fair Value**

The Company adopted SFAS No. 157 as of February 3, 2008, with the exception of the application of the statement of non-recurring, nonfinancial assets and liabilities. The adoption of SFAS No. 157 did not have a material impact on the Company's results of operations or financial position. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. In February 2008, the FASB issued FSP 157-b. FSP 157-b amended SFAS No. 157, to delay the effective date for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (that is, at least annually). FSP 157-b defers the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008 (Fiscal 2010 for the Company), and interim periods within those fiscal years for items within the scope of the FSP.

SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS No. 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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

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

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

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

The following table presents the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of November 1, 2008:

(In thousands)	Fair Value Measurements as of November 1, 2008			
	Total	Level 1	Level 2	Level 3
Assets:				
Foreign exchange forward contracts ⁽¹⁾	\$ (233)	\$	\$ (233)	\$
Total	\$ (233)	\$	\$ (233)	\$

(1) Unrealized gains or losses on derivatives are recorded in accumulated other comprehensive loss on the Condensed Consolidated

Balance Sheets
at each
measurement
date.

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Notes to Condensed Consolidated Financial Statements

Note 7**Accounting for Uncertainty in Income Taxes**

The provision for income taxes resulted in an effective tax rate for continuing operations of 38.1% for the first nine months ended November 1, 2008, compared with an effective tax rate of 42.5% for the first nine months ended November 3, 2007. The decrease in the effective tax rate for the first nine months of Fiscal 2009 was primarily attributable to non-deductible expenses incurred in Fiscal 2008 related to the merger agreement with The Finish Line that became deductible upon termination of the merger agreement in Fiscal 2009 offset by an income tax liability recorded as a result of the increase in value of the shares of common stock received in the settlement agreement. In addition, the FIN 48 liability increased \$6.6 million for the nine months ended November 1, 2008 primarily related to the settlement agreement which was partially offset by a \$1.2 million reduction from an agreement reached on a state income tax contingency.

Note 8**Defined Benefit Pension Plans and Other Benefit Plans*****Components of Net Periodic Benefit Cost***

	Pension Benefits		Other Benefits	
	Three Months Ended		Three Months Ended	
	November	November	November	November
In thousands	1,	3,	1,	3,
	2008	2007	2008	2007
Service cost	\$ 63	\$ 62	\$ 33	\$ 57
Interest cost	1,574	1,612	41	52
Expected return on plan assets	(2,147)	(2,006)	-0-	-0-
Amortization:				
Prior service cost	1	2	-0-	-0-
Losses	846	1,171	20	18
Net amortization	847	1,173	20	18
Net Periodic Benefit Cost	\$ 337	\$ 841	\$ 94	\$ 127

	Pension Benefits		Other Benefits	
	Nine Months Ended		Nine Months Ended	
	November	November	November	November
In thousands	1,	3,	1,	3,
	2008	2007	2008	2007
Service cost	\$ 188	\$ 187	\$ 99	\$ 171
Interest cost	4,743	4,839	123	156
Expected return on plan assets	(6,422)	(6,018)	-0-	-0-
Amortization:				
Prior service cost	4	6	-0-	-0-
Losses	2,515	3,247	60	54

Net amortization	2,519	3,253	60	54
Net Periodic Benefit Cost	\$ 1,028	\$ 2,261	\$ 282	\$ 381

While there was no cash contribution requirement for the Plan in 2008, the Company made a \$4.0 million contribution to the Plan in March 2008.

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Note 9**Earnings Per Share**

(In thousands, except per share amounts)	For the Three Months Ended November 1, 2008			For the Three Months Ended November 3, 2007		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Earnings from continuing operations	\$ 9,463			\$ 5,610		
Less: Preferred stock dividends	(49)			(49)		
Basic EPS						
Earnings available to common shareholders	9,414	18,638	\$.51	5,561	22,454	\$.25
Effect of Dilutive Securities						
Options		388			509	
Convertible preferred stock ⁽¹⁾ 4 1/8% Convertible	-0-	-0-		-0-	-0-	
Subordinated Debentures	647	4,298		604	3,898	
Employees preferred stock ⁽²⁾		51			57	
Diluted EPS						
Earnings available to common shareholders plus assumed conversions	\$ 10,061	23,375	\$.43	\$ 6,165	26,918	\$.23

(1) The amount of the dividend on the convertible preferred stock per common share obtainable on conversion of the convertible preferred stock was higher than basic earnings per share for all

periods presented. Therefore, conversion of the convertible preferred stock was not reflected in diluted earnings per share, because it would have been antidilutive. The shares convertible to common stock for the three months ended November 1, 2008 for Series 1, 3 and 4 preferred stock would have been 27,989, 25,949 and 5,423, respectively. The shares convertible to common stock for the three months ended November 3, 2007 for Series 1, 3 and 4 preferred stock would have been 28,047, 25,949 and 5,423, respectively.

- (2) The Company's Employees Subordinated Convertible Preferred Stock is convertible one for one to the Company's

common stock.
Because there
are no dividends
paid on this
stock, these
shares are
assumed to be
converted.

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Note 9**Earnings Per Share, Continued**

(In thousands, except per share amounts)	For the Nine Months Ended November 1, 2008			For the Nine Months Ended November 3, 2007		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Earnings from continuing operations	\$ 134,426			\$ 4,873		
Less: Preferred stock dividends	(148)			(167)		
Basic EPS						
Income available to common shareholders	134,278	19,401	\$ 6.92	4,706	22,420	\$.21
Effect of Dilutive Securities						
Options		360			516	
Convertible preferred stock ⁽¹⁾	115	59		-0-	-0-	
4 1/8% Convertible Subordinated Debentures	1,876	4,298		-0-	-0-	
Employees preferred stock ⁽²⁾		52			58	
Diluted EPS						
Income available to common shareholders plus assumed conversions	\$ 136,269	24,170	\$ 5.64	\$ 4,706	22,994	\$.20

(1) The amount of the dividend on the convertible preferred stock per common share obtainable on the conversion of the convertible preferred stock was less than basic earnings

per share for the nine months ended November 1, 2008. Therefore, conversion of Series 1, 3 and 4 preferred shares were included in diluted earnings per share for the nine months of Fiscal 2009. The amount of the dividend on the convertible preferred stock per common share obtainable on conversion of the convertible preferred stock was higher than basic earnings per share for the nine months ended November 3, 2007. Therefore, conversion of the convertible preferred stock was not reflected in diluted earnings per share, because it would have been antidilutive. The shares convertible to common stock for Series 1, 3 and 4 preferred stock would have been 27,989, 25,949 and 5,423, respectively.

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

The Company did not repurchase any shares during Fiscal 2008. In March 2008, the board authorized up to \$100.0 million in stock repurchases primarily funded with the after-tax cash proceeds of the settlement of merger-related litigation with The Finish Line and UBS (see Notes 2 and 10). The Company repurchased 4.0 million shares at a cost of \$90.9 million during the nine months ended November 1, 2008.

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Note 10**Legal Proceedings****Environmental Matters***New York State Environmental Matters*

In August 1997, the New York State Department of Environmental Conservation (NYSDEC) and the Company entered into a consent order whereby the Company assumed responsibility for conducting a remedial investigation and feasibility study (RIFS) and implementing an interim remedial measure (IRM) with regard to the site of a knitting mill operated by a former subsidiary of the Company from 1965 to 1969. The Company undertook the IRM and RIFS voluntarily, without admitting liability or accepting responsibility for any future remediation of the site. The Company has completed the IRM and the RIFS. In the course of preparing the RIFS, the Company identified remedial alternatives with estimated undiscounted costs ranging from \$-0- to \$24.0 million, excluding amounts previously expended or provided for by the Company, as described in this footnote. The United States Environmental Protection Agency (EPA), which has assumed primary regulatory responsibility for the site from NYSDEC, issued a Record of Decision in September 2007. The Record of Decision requires a remedy of a combination of groundwater extraction and treatment and in-site chemical oxidation at an estimated present worth cost of approximately \$10.7 million. On April 10, 2008, the EPA sent special notice letters under Section 122(e) of the Comprehensive Environmental Response, Compensation and Liability Act to the Company and the property owner, inviting the recipients to make good faith offers to finance or conduct remediation pursuant to the Record of Decision. The Company has responded to the special notice letter with an offer to implement the remedial action required by the Record of Decision (at a cost estimated by EPA of \$4.5 million) and to pay a lump sum of \$4.1 million in satisfaction of any obligations for future operating, maintenance and monitoring costs. The Company provided for the estimated costs of its offer in the second quarter of Fiscal 2009. The EPA has not accepted the Company's offer and there can be no assurance that future negotiations with or administrative action by the EPA or future changes in cost estimates will not involve costs in addition to those the Company has provided for.

The Village of Garden City, New York, has asserted that the Company is liable for the costs associated with enhanced treatment required by the impact of the groundwater plume from the site on two public water supply wells, including historical costs ranging from approximately \$1.8 million to in excess of \$2.5 million, and future operation and maintenance costs which the Village estimates at \$126,400 annually while the enhanced treatment continues. On December 14, 2007, the Village filed a complaint against the Company and the owner of the property under provisions of various federal environmental statutes in the U.S. District Court for the Eastern District of New York, seeking an injunction requiring the defendants to remediate contamination from the site and to establish their liability for future costs that may be incurred in connection with it, which the complaint alleges could exceed \$41 million over a 70-year period. The Company has not verified the estimates of either historic or future costs asserted by the Village, but believes that an estimate of future costs based on a 70-year remediation period is unreasonable given the expected remedial period reflected in the EPA's Record of Decision. On May 23, 2008, the Company filed a motion to dismiss the Village's complaint on grounds including applicable statutes of limitation and preemption of certain claims by the NYSDEC's and the EPA's diligent prosecution of remediation.

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Legal Proceedings, Continued

In December 2005, the EPA notified the Company that it considers the Company a potentially responsible party (PRP) with respect to contamination at two Superfund sites in upstate New York. The sites were used as landfills for process wastes generated by a glue manufacturer, which acquired tannery wastes from several tanners, allegedly including the Company s Whitehall tannery, for use as raw materials in the gluemaking process. The Company has no records indicating that it ever provided raw materials to the gluemaking operation and has not been able to establish whether EPA s substantive allegations are accurate. The Company, together with other tannery PRP s, has entered into cost sharing agreements and Consent Decrees with the EPA with respect to both sites. Based upon the current estimates of the cost of remediation, the Company s share is expected to be less than \$250,000 in total for the two sites. While there is no assurance that the Company s share of the actual cost of remediation will not exceed the estimate, the Company does not presently expect that its aggregate exposure with respect to these two landfill sites will have a material adverse effect on its financial condition or results of operations.

Whitehall Environmental Matters

The Company has performed sampling and analysis of soil, sediments, surface water, groundwater and waste management areas at the Company s former Volunteer Leather Company facility in Whitehall, Michigan. The Company has submitted to the Michigan Department of Environmental Quality (MDEQ) and provided for certain costs associated with a remedial action plan (the Plan) designed to bring the property into compliance with regulatory standards for non-industrial uses and has subsequently engaged in negotiations regarding the scope of the Plan. The Company estimates that the costs of resolving environmental contingencies related to the Whitehall property range from \$3.9 million to \$4.4 million, and considers the cost of implementing the Plan, as it is modified in the course of negotiations with the MDEQ, to be the most likely cost within that range. Until the Plan is finally approved by the MDEQ, management cannot provide assurances that no further remediation will be required or that its estimate of the range of possible costs or of the most likely cost of remediation will prove accurate.

Accrual for Environmental Contingences

Related to all outstanding environmental contingencies, the Company had accrued \$16.0 million as of November 1, 2008, \$7.8 million as of February 2, 2008 and \$7.4 million as of November 3, 2007. All such provisions reflect the Company s estimates of the most likely cost (undiscounted, including both current and noncurrent portions) of resolving the contingencies, based on facts and circumstances as of the time they were made. There is no assurance that relevant facts and circumstances will not change, necessitating future changes to the provisions. Such contingent liabilities are included in the liability arising from provision for discontinued operations on the accompanying Condensed Consolidated Balance Sheets.

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Note 10

Legal Proceedings, Continued

Merger-Related Litigation

Genesco Inc. v. The Finish Line, et al.

UBS Securities LLC and UBS Loan Finance LLC v. Genesco Inc., et al.

On June 18, 2007, the Company announced that the boards of directors of Genesco and The Finish Line had unanimously approved a definitive merger agreement under which The Finish Line would acquire all of the outstanding common shares of Genesco at \$54.50 per share in cash. On September 21, 2007, the Company filed suit against The Finish Line, Inc. in Chancery Court in Nashville, Tennessee seeking a court order requiring The Finish Line to consummate the merger with the Company (the Tennessee Action), UBS Securities LLC and UBS Loan Finance LLC (collectively, UBS) subsequently intervened as a defendant in the Tennessee action.

On November 15, 2007, UBS filed a separate lawsuit in the United States District Court for the Southern District of New York (the New York Action), naming the Company and The Finish Line as defendants. In the New York Action, UBS sought a declaration that its commitment to provide The Finish Line with financing for the merger transaction was void and/or could be terminated by UBS because The Finish Line would not be able to provide, prior to the expiration of the financing commitment on April 30, 2008, a valid solvency certificate attesting to the solvency of the combined entities resulting from the merger, which certificate was a condition precedent to the closing of the financing. The Company was named in the New York Action as an interested party.

Trial of the Tennessee Action began on December 10, 2007 and concluded on December 18, 2007. On December 27, 2007, the Chancery Court ordered The Finish Line to specifically perform the terms of the Merger Agreement. In its order, the Court rejected UBS's and Finish Line's claims of fraud and misrepresentation and declared that all conditions to the Merger Agreement had been met. The Court also declared that Finish Line had breached the Merger Agreement by not closing the merger. The Court ordered Finish Line to close the merger pursuant to section 1.2 of the Merger Agreement, to use its reasonable best efforts to take all actions to consummate the merger as required by section 6.4(d) of the Merger Agreement, and to use its reasonable best efforts to obtain financing as per section 6.8(a) of the Merger Agreement. The Court excluded from its order any ruling on the issue of the solvency of the combined company, finding that the issue of solvency was reserved for determination by the New York Court in the New York Action filed by UBS.

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Legal Proceedings, Continued

On March 3, 2008, the Company, The Finish Line, and UBS entered into a definitive agreement for the termination of the merger agreement with The Finish Line and the settlement of all related litigation among The Finish Line and the Company and UBS, including the Tennessee Action and the New York Action. In the settlement agreement, the parties agreed that: (1) the merger agreement between the Company and The Finish Line would be terminated; (2) the financing commitment from UBS to The Finish Line would be terminated; (3) UBS and The Finish Line would pay to the Company an aggregate of \$175 million in cash; (4) The Finish Line would transfer to the Company a number of Class A shares of The Finish Line common stock equal to 12.0% of the total post-issuance outstanding shares of The Finish Line common stock which the Company would use its best efforts to distribute to its common shareholders as soon as practicable after the shares' registration and listing on NASDAQ; (5) the Company and The Finish Line would be subject to a mutual standstill agreement; and (6) the parties would execute customary mutual releases. Stipulations of Dismissal were filed by all parties to both the New York Action and the Tennessee Action, and both Actions were dismissed. The Company distributed the shares of The Finish Line common stock received in the settlement to the Company's shareholders during the second quarter of Fiscal 2009.

Investigation by the Office of the U.S. Attorney for the Southern District of New York

On November 21, 2007, the Company received a grand jury subpoena from the Office of the U.S. Attorney for the Southern District of New York for documents relating to the Company's negotiations and merger agreement with The Finish Line. The subpoena states that the documents are sought in connection with alleged violations of federal fraud statutes. The Company cooperated fully with the U.S. Attorney's Office and produced documents pursuant to the subpoena.

In re Genesco Inc. Securities Litigation

On December 5, 2007, a class action complaint styled *Roeglin v. Genesco Inc., et al.*, alleging violations of the federal securities laws on behalf of all purchasers of the Company's common stock between April 20, 2007 and November 26, 2007 was filed against the Company and four of its officers in the U.S. District Court for the Middle District of Tennessee. The complaint alleges that the defendants violated federal securities laws by making false and misleading statements about the Company's business during that period. It seeks unspecified damages and interest, costs and attorneys' fees and other relief. The Company does not believe there is any merit to the allegations and intends to defend these claims vigorously.

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Note 10

Legal Proceedings, Continued

On December 13, 2007, a second class action complaint styled *Koshti v. Genesco Inc., et al.*, alleging violations of the federal securities laws on behalf of all purchasers of the Company's common stock between April 20, 2007 and November 26, 2007 was filed against the Company and three of its officers in the U.S. District Court for the Middle District of Tennessee. The Complaint alleges that the defendants violated federal securities laws by failing to disclose material adverse facts about the Company's financial well being and prospects during the class period. The complaint seeks unspecified damages and interest, costs and attorneys' fees and other relief. On January 22, 2008, the U.S. District Court entered a stipulation and Order consolidating the *Koshti* case with the *Roeglin* case.

Falzone v. Genesco Inc., et al.

On December 11, 2007, a class action complaint alleging violations of the federal securities laws on behalf of all purchasers of the Company's common stock between May 31, 2007 and November 16, 2007 was filed against the Company and one of its officers in the U.S. District Court for the Southern District of New York. The complaint alleged that the defendants violated federal securities laws by making false and misleading statements about the Company's business during that period. It sought unspecified damages and interest, costs and attorneys' fees and other relief. On February 5, 2008, the plaintiff filed a Stipulation and Order of Discontinuance Without Prejudice dismissing the case in light of the earlier filed cases in Tennessee.

Phillips v. Genesco Inc., et al.

On April 24, 2007, a putative class action, Maxine Phillips, on Behalf of Herself and All Others Similarly Situated vs. Genesco Inc., et al., was filed in the Tennessee Chancery Court in Nashville. The original complaint alleged, among other things, that the individual defendants (officers and directors of the Company) refused to consider properly the proposal by Foot Locker, Inc. to acquire the Company. The complaint sought class certification, a declaration that defendants have breached their fiduciary and other duties, an order requiring defendants to implement a process to obtain the highest possible price for shareholders' shares, and an award of costs and attorney's fees. Following the execution of the merger agreement with The Finish Line, Inc., the plaintiff filed an amended complaint alleging breach of fiduciary duties by the individual defendants in connection with the board of directors' approval of the merger agreement and the disclosures made in the preliminary proxy statement related to the merger and seeking injunctive relief. On April 28, 2008, the court entered an order dismissing the case without prejudice for failure to prosecute.

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Legal Proceedings, Continued

California Matters

On November 4, 2005, a former employee gave notice to the California Labor Work Force Development Agency (LWDA) of a claim against the Company for allegedly failing to provide a payroll check that is negotiable and payable in cash, on demand, without discount, at an established place of business in California, as required by the California Labor Code. On May 18, 2006, the same claimant filed a putative class, representative and private attorney general action alleging the same violations of the Labor Code in the Superior Court of California, Alameda County, seeking statutory penalties, damages, restitution, and injunctive relief. On February 21, 2007, the court granted leave for the plaintiff to file an amended complaint adding the Company's wholly-owned subsidiary, Hat World, Inc., as a defendant. On April 15, 2008, the parties reached an agreement to settle the action pursuant to which the Company will pay a minimum of \$750,000 and a maximum of \$1,025,408, depending upon the number of verified claims submitted by class members.

On April 8, 2008, a putative class action was filed against the Company in the Superior Court of California, San Diego County, alleging violations of the Song-Beverly Credit Card Act of 1971, California Civil Code §1747.08, related to requests that customers in the Company's California Johnston & Murphy retail stores voluntarily provide the Company with their e-mail addresses. On October 13, 2008, the court certified the action as a class action and preliminarily approved a settlement agreement pursuant to which the Company has issued to each plaintiff class member a discount coupon good for 25% off up to a \$200 purchase from a Johnston & Murphy store in a single transaction, exchangeable at the class member's option for a \$25 gift card. The Company also agreed to pay attorney's fees and costs and additional consideration to the named plaintiff totaling approximately \$200,000.

On June 16, 2008, there was filed in the Superior Court of the State of California, County of Shasta, a putative class action styled *Jacobs v. Genesco Inc. et al.*, alleging violations of the California Labor Code involving payment of wages, failure to provide mandatory meal and rest breaks, and unfair competition, and seeking back pay, penalties and declaratory and injunctive relief. The Company has removed the case to the Federal District Court for the Eastern District of California. On September 3, 2008, the court dismissed certain of the plaintiff's claims, including claims for conversion and punitive damages. The Company is preparing to conduct oral and written discovery and to defend itself against the remaining claims in the case.

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Note 10

Legal Proceedings, Continued

Patent Action

The Company is named as a defendant in *Paul Ware and Financial Systems Innovation, L.L.C. v. Abercrombie & Fitch Stores, Inc., et al.*, filed on June 19, 2007, in the United States District Court for the Northern District of Georgia, against more than 100 retailers. The suit alleges that the defendants have infringed U.S. Patent No. 4,707,592 by using a feature of their retail point of sale registers to generate transaction numbers for credit card purchases. The complaint seeks treble damages in an unspecified amount and attorneys' fees. The Company has filed an answer denying the substantive allegations in the complaint and asserting certain affirmative defenses. On December 14, 2007, the Company filed a third-party complaint against Datavantage Corporation and MICROS Systems, Inc., its vendor for the technology at issue in the case, seeking indemnification and defense against the infringement allegations in the complaint. On December 27, 2007, the court stayed proceedings in the litigation pending the outcome of a reexamination of the patent by the U. S. Patent and Trademark Office. On September 15, 2008, the patent examiner issued a first Office Action rejecting all of the claims in the patent as being unpatentable over the prior art.

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Note 11**Business Segment Information**

The Company operates five reportable business segments (not including corporate): Journeys Group, comprised of the Journeys, Journeys Kidz and Shi by Journeys retail footwear chains, catalog and e-commerce operations; Underground Station Group, comprised of the Underground Station retail footwear chain and e-commerce operations and the Company's remaining Jarman retail footwear stores; Hat World Group, comprised of the Hat World, Lids, Hat Shack, Hat Zone, Head Quarters, Cap Connection and Lids Kids retail headwear chains and e-commerce operations; Johnston & Murphy Group, comprised of Johnston & Murphy retail operations, catalog and e-commerce operations and wholesale distribution; and Licensed Brands, comprised primarily of Dockers® Footwear, sourced and marketed under a license from Levi Strauss & Company.

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

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

Corporate assets include cash, deferred income taxes, deferred note expense and corporate fixed assets. The Company charges allocated retail costs of distribution to each segment and unallocated retail costs of distribution to the corporate segment. The Company does not allocate certain costs to each segment in order to make decisions and assess performance. These costs include corporate overhead, stock compensation, interest expense, interest income, restructuring charges and other, including litigation.

Three Months Ended	Underground		Hat	Johnston & Murphy	Licensed	Corporate	Consolidated
November 1, 2008	Journeys	Station	World	Group	Brands	& Other	
In thousands	Group	Group	Group	Group	Group	Group	Group
Sales	\$ 200,745	\$ 24,266	\$ 93,131	\$ 41,785	\$ 29,680	\$ 191	\$ 389,798
Intercompany sales	-0-	-0-	-0-	-0-	(31)	-0-	(31)
Net sales to external customers	\$ 200,745	\$ 24,266	\$ 93,131	\$ 41,785	\$ 29,649	\$ 191	\$ 389,767
Segment operating income (loss)	\$ 16,901	\$ (2,234)	\$ 6,721	\$ 1,525	\$ 3,892	\$ (8,256)	\$ 18,549
Restructuring and other	-0-	-0-	-0-	-0-	-0-	(2,284)	(2,284)
Earnings (loss) from operations	16,901	(2,234)	6,721	1,525	3,892	(10,540)	16,265
Interest expense	-0-	-0-	-0-	-0-	-0-	(2,509)	(2,509)
Interest income	-0-	-0-	-0-	-0-	-0-	29	29
Earnings (loss) before income taxes from continuing operations	\$ 16,901	\$ (2,234)	\$ 6,721	\$ 1,525	\$ 3,892	\$ (13,020)	\$ 13,785

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Total assets	\$ 293,956	\$ 46,935	\$ 324,722	\$ 86,563	\$ 34,273	\$ 105,412	\$ 891,861
Depreciation	5,499	832	3,410	893	14	1,050	11,698
Capital expenditures	5,240	59	2,983	1,682	2	806	10,772
			36				

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Note 11**Business Segment Information, Continued**

Three Months Ended	Underground			Johnston & Murphy Group	Licensed Brands	Corporate & Other	Consolidated
	Journeys Group	Station Group	Hat World Group				
November 3, 2007							
In thousands							
Sales	\$ 182,587	\$ 26,792	\$ 87,815	\$ 46,403	\$ 28,817	\$ 130	\$ 372,544
Intercompany sales	-0-	-0-	-0-	-0-	(48)	-0-	(48)
Net sales to external customers	\$ 182,587	\$ 26,792	\$ 87,815	\$ 46,403	\$ 28,769	\$ 130	\$ 372,496
Segment operating income (loss)	\$ 15,336	\$ (2,930)	\$ 4,639	\$ 4,377	\$ 4,019	\$ (11,584)	\$ 13,857
Restructuring and other	-0-	-0-	-0-	-0-	-0-	(56)	(56)
Earnings (loss) from operations	15,336	(2,930)	4,639	4,377	4,019	(11,640)	13,801
Interest expense	-0-	-0-	-0-	-0-	-0-	(3,544)	(3,544)
Interest income	-0-	-0-	-0-	-0-	-0-	40	40
Earnings (loss) before income taxes from continuing operations	\$ 15,336	\$ (2,930)	\$ 4,639	\$ 4,377	\$ 4,019	\$ (15,144)	\$ 10,297
Total assets	\$ 307,097	\$ 56,272	\$ 334,403	\$ 75,442	\$ 31,763	\$ 112,441	\$ 917,418
Depreciation	4,859	954	3,383	840	20	1,322	11,378
Capital expenditures	13,909	410	8,355	1,493	181	1,371	25,719
Nine Months Ended							
November 1, 2008							
In thousands							
Sales	\$ 530,467	\$ 76,867	\$ 283,037	\$ 132,370	\$ 76,602	\$ 557	\$ 1,099,900
Intercompany sales	-0-	-0-	-0-	-0-	(60)	-0-	(60)
Net sales to external customers	\$ 530,467	\$ 76,867	\$ 283,037	\$ 132,370	\$ 76,542	\$ 557	\$ 1,099,840
	\$ 24,587	\$ (6,253)	\$ 21,900	\$ 8,202	\$ 9,538	\$ (30,172)	\$ 27,802

Segment operating income (loss)							
Gain from settlement of merger- related litigation	-0-	-0-	-0-	-0-	-0-	204,075	204,075
Restructuring and other	-0-	-0-	-0-	-0-	-0-	(7,782)	(7,782)
Earnings (loss) from operations	24,587	(6,253)	21,900	8,202	9,538	166,121	224,095
Interest expense	-0-	-0-	-0-	-0-	-0-	(7,105)	(7,105)
Interest income	-0-	-0-	-0-	-0-	-0-	308	308
Earnings (loss) before income taxes from continuing operations	\$ 24,587	\$ (6,253)	\$ 21,900	\$ 8,202	\$ 9,538	\$ 159,324	\$ 217,298
Total assets	\$ 293,956	\$ 46,935	\$ 324,722	\$ 86,563	\$ 34,273	\$ 105,412	\$ 891,861
Depreciation	15,895	2,545	10,369	2,526	45	3,597	34,977
Capital expenditures	19,721	277	11,694	6,218	26	2,457	40,393

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Note 11**Business Segment Information, Continued**

Nine Months Ended	Underground			Johnston & Murphy Group	Licensed Brands	Corporate & Other	Consolidated
	Journeys Group	Station Group	Hat World Group				
November 3, 2007							
In thousands							
Sales	\$ 486,599	\$ 81,122	\$ 257,119	\$ 138,354	\$ 71,665	\$ 573	\$ 1,035,432
Intercompany sales	-0-	-0-	-0-	-0-	(308)	-0-	(308)
Net sales to external customers	\$ 486,599	\$ 81,122	\$ 257,119	\$ 138,354	\$ 71,357	\$ 573	\$ 1,035,124
Segment operating income (loss)	\$ 27,136	\$ (9,991)	\$ 14,709	\$ 12,459	\$ 9,193	\$ (29,318)	\$ 24,188
Restructuring and other	-0-	-0-	-0-	-0-	-0-	(6,809)	(6,809)
Earnings (loss) from operations	27,136	(9,991)	14,709	12,459	9,193	(36,127)	17,379
Interest expense	-0-	-0-	-0-	-0-	-0-	(9,025)	(9,025)
Interest income	-0-	-0-	-0-	-0-	-0-	119	119
Earnings (loss) before income taxes from continuing operations	\$ 27,136	\$ (9,991)	\$ 14,709	\$ 12,459	\$ 9,193	\$ (45,033)	\$ 8,473
Total assets	\$ 307,097	\$ 56,272	\$ 334,403	\$ 75,442	\$ 31,763	\$ 112,441	\$ 917,418
Depreciation	13,856	3,029	9,633	2,436	60	4,165	33,179
Capital expenditures	35,505	1,380	23,739	5,431	241	2,550	68,846

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

This discussion and the notes to the Condensed Consolidated Financial Statements include certain forward-looking statements, including those regarding the performance outlook for the Company and its individual businesses and all other statements not addressing solely historical facts or present conditions. Actual results could differ materially from those reflected by the forward-looking statements in this discussion, in the notes to the Condensed Consolidated Financial Statements, and in other disclosures, including those regarding the Company's performance outlook for the fourth quarter of Fiscal 2009.

A number of factors may adversely affect the outlook reflected in forward looking statements and the Company's future results, liquidity, capital resources or prospects. These factors (some of which are beyond the Company's control) include:

Continuing weakness in the economy and disruptions in the financial markets affecting the ability or willingness of the consumer to purchase the Company's products. The effects of economic weakness may be particularly pronounced in the holiday shopping season, which accounts for a disproportionately significant amount of the Company's expected sales and earnings for the year, and the apparent severity of the current downturn makes its effect on the Company's near-term outlook unusually difficult to predict.

Fashion trends that affect the sales or product margins of the Company's retail product offerings.

Inability of customers to obtain credit.

Changes in the timing of holidays, or in the onset of seasonal weather affecting period-to-period sales comparisons.

Changes in buying patterns by significant wholesale customers.

Bankruptcies and deterioration in the financial condition of wholesale customers, limiting their ability to buy or pay for merchandise offered by the Company.

Disruptions in product supply or distribution.

Unfavorable trends in fuel costs, and further unfavorable trends in foreign exchange rates, foreign labor and material costs and other factors affecting the cost of products.

Changes in business strategies by the Company's competitors (including pricing, distribution and promotional discounts), the entry of additional competitors into the Company's markets, and other competitive factors.

The Company's ability to open, staff and support additional retail stores on schedule and at acceptable expense levels and to renew leases in existing stores on schedule and at acceptable expense levels.

The Company's ability to negotiate acceptable lease terminations and otherwise to execute its previously announced store closing plans on schedule and at expected expense levels.

Unexpected changes to the market for the Company's shares and the impact of any future stock repurchases.

Variations from expected pension-related charges caused by conditions in the financial markets.

The outcome of litigation, investigations and environmental matters involving the Company, including but not limited to the matters discussed in Note 10 to the Condensed Consolidated Financial Statements.

In addition to the risks referenced above, additional risks are highlighted in the Company's Annual Report on Form 10-K for the year ended February 2, 2008. Forward-looking statements reflect the expectations of the Company at the time they are made, and investors should rely on them only as expressions of opinion about what may happen in the future and only at the time they are made. The Company undertakes no obligation to update any forward-looking statement. Although the Company believes it has an appropriate business strategy and the resources necessary for its operations, predictions about future revenue and margin trends are inherently uncertain and the Company may alter its business strategies to address changing conditions.

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Overview

Description of Business

The Company is a leading retailer of branded footwear and of licensed and branded headwear, operating 2,228 retail footwear and headwear stores throughout the United States and Puerto Rico including 46 headwear stores in Canada as of November 1, 2008. The Company also designs, sources, markets and distributes footwear under its own Johnston & Murphy brand and under the licensed Dockers® brand to more than 1,000 retail accounts in the United States, including a number of leading department, discount, and specialty stores.

The Company operates five reportable business segments (not including corporate): Journeys Group, comprised of the Journeys, Journeys Kidz and Shi by Journeys retail footwear chains, catalog and e-commerce operations; Underground Station Group, comprised of the Underground Station retail footwear chain and e-commerce operations and the Company's remaining Jarman retail footwear stores; Hat World Group, comprised primarily of the Hat World, Lids, Hat Shack, Hat Zone, Head Quarters, Cap Connection and Lids Kids retail headwear chains and e-commerce operations; Johnston & Murphy Group, comprised of Johnston & Murphy retail operations, catalog and e-commerce operations and wholesale distribution; and Licensed Brands, comprised primarily of Dockers® Footwear, sourced and marketed under a license from Levi Strauss & Company.

The Journeys retail footwear stores sell footwear and accessories primarily for 13 to 22 year old men and women. The stores average approximately 1,925 square feet. The Journeys Kidz retail footwear stores sell footwear primarily for younger children, ages five to 12. These stores average approximately 1,425 square feet. Shi by Journeys retail footwear stores, the first of which opened in November 2005, sell footwear and accessories to fashion-conscious women in their early 20's to mid 30's. These stores average approximately 2,125 square feet.

The Underground Station retail footwear stores sell footwear and accessories primarily for men and women in the 20 to 35 age group and in the urban market. The Underground Station Group stores average approximately 1,775 square feet. In May of 2007, the Company announced a plan to close or convert up to 57 underperforming stores, including 49 Underground Station Group stores, due to the deterioration in the urban market. As of November 1, 2008, the Company had closed 28 of the 49 Underground Station Group stores.

The Hat World Group stores and kiosks sell licensed and branded headwear to men and women primarily in the early-teens to mid-20's age group. Hat World also operates a number of Lids Kids stores, offering licensed and branded headwear, apparel and accessories to children up to 10 years old, but has no plans to open additional Lids Kids stores. The Hat World Group locations average approximately 775 square feet and are primarily in malls, airports, street level stores and factory outlet centers throughout the United States, Puerto Rico and in Canada. Johnston & Murphy retail shops sell a broad range of men's footwear and accessories. These shops average approximately 1,425 square feet and are located primarily in better malls nationwide and in airports. Johnston & Murphy shoes are also distributed through the Company's wholesale operations to better department and independent specialty stores. In addition, the Company sells Johnston & Murphy footwear and accessories in factory stores, averaging approximately 2,350 square feet, located in factory outlet malls, and through a direct-to-consumer catalog and e-commerce operation.

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The Company entered into an exclusive license with Levi Strauss & Co. to market men's footwear in the United States under the Dockers® brand name in 1991. Levi Strauss & Co. and the Company have subsequently added additional territories, including Canada and Mexico. The Dockers license agreement was renewed November 1, 2006. The Dockers license agreement, as amended, expires on December 31, 2009, with a Company option to renew through December 31, 2012, subject to certain conditions. The Company uses the Dockers name to market casual and dress casual footwear to men aged 30 to 55 through many of the same national retail chains that carry Dockers slacks and sportswear and in department and specialty stores across the country.

Strategy

The Company's strategy has been to seek long-term, organic growth by: 1) increasing the Company's store base, 2) increasing retail square footage, 3) improving comparable store sales, 4) increasing operating margin and 5) enhancing the value of its brands. Our future results are subject to various risks, uncertainties and other challenges, including those discussed under the caption *Forward Looking Statements*, above and those discussed in Item 1A., *Risk Factors* in the Company's Annual Report on Form 10-K for the year ended February 2, 2008. Additionally, the pace of the Company's growth and the implementation of its long-term strategic plan may be negatively affected by economic conditions.

Generally, the Company attempts to develop strategies to mitigate the risks it views as material, including those discussed in Item 1A., *Risk Factors*. Among the most important of these factors are those related to consumer demand. Conditions in the external economy can affect demand, resulting in changes in sales and, as prices are adjusted to drive sales and manage inventories, in gross margins. Because fashion trends influencing many of the Company's target customers (particularly customers of Journeys Group, Underground Station Group and Hat World Group) can change rapidly, the Company believes that its ability to react quickly to those changes has been important to its success. Even when the Company succeeds in aligning its merchandise offerings with consumer preferences, those preferences may affect results by, for example, driving sales of products with lower average selling prices. Moreover, economic factors, such as the current recession, may reduce the consumer's disposable income or his or her willingness to purchase discretionary items, and thus may reduce demand for the Company's merchandise, regardless of the Company's skill in detecting and responding to fashion trends. The Company believes its experience and discipline in merchandising and the buying power associated with its relative size in the industry are important to its ability to mitigate risks associated with changing customer preferences and other reductions in consumer demand. Also important to the Company's long-term prospects are the availability and cost of appropriate locations for the Company's retail concepts. The Company is opening stores in airports and on streets in major cities and tourist venues, among other locations, in an effort to broaden its selection of locations for additional stores beyond the malls that have traditionally been the dominant venue for its retail concepts.

Summary of Operating Results

The Company's net sales increased 4.6% during the third quarter of Fiscal 2009 compared to the third quarter of Fiscal 2008. The increase was driven primarily by a 10% increase in Journeys Group sales, a 6% increase in Hat World Group sales and a 3% increase in Licensed Brands sales, offset by a 10% decrease in Johnston & Murphy Group sales and a 9% decrease in Underground Station Group sales. Gross margin increased as a percentage of net sales during the third quarter of Fiscal 2009, primarily due to margin increases in the Journeys Group, Underground Station Group and Hat World Group. Selling and administrative expenses decreased as a percentage of net sales during the third quarter of Fiscal 2009, reflecting lower merger-related expenses and decreases as a percentage of net sales in the Underground Station Group and Licensed Brands, offset by increases

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as a percentage of net sales in the Journeys Group and Johnston & Murphy Group. Selling and administrative expenses for the Hat World Group were flat for the third quarter of Fiscal 2009. Last year's third quarter selling and administrative expenses included \$6.1 million of merger-related expenses compared to \$0.2 million in this year's third quarter. Earnings from operations increased as a percentage of net sales during the third quarter of Fiscal 2009, primarily due to the reduction in merger-related expenses and to an increase in earnings from operations in the Hat World Group as well as a smaller loss in the Underground Station Group, offset by decreased earnings from operations in the Johnston & Murphy Group and Licensed Brands. Earnings from operations as a percentage of net sales in the Journeys Group were flat for the third quarter this year.

Significant Developments*Terminated Merger Agreement*

The Company announced in June 2007 that the boards of directors of both Genesco and The Finish Line, Inc. had unanimously approved a definitive merger agreement under which The Finish Line would acquire all of the outstanding common shares of Genesco at \$54.50 per share in cash (the Proposed Merger). The Finish Line refused to close the Proposed Merger and litigation ensued. The Proposed Merger and related agreement were terminated in March 2008 in connection with an agreement to settle the litigation with The Finish Line and UBS Loan Finance LLC and UBS Securities LLC (collectively, UBS) for a cash payment of \$175.0 million to the Company and a 12% equity stake in The Finish Line, which the Company received in the first quarter of Fiscal 2009. The Company distributed the 12% equity stake, or 6,518,971 shares of Class A Common Stock of The Finish Line Inc., on June 13, 2008, to its common shareholders of record on May 30, 2008, as required by the settlement agreement.

During the third quarter and first nine months of Fiscal 2009, the Company expensed \$0.2 million and \$7.8 million, respectively, in merger-related litigation costs. During the third quarter and first nine months of Fiscal 2008, the Company expensed \$6.1 million and \$11.6 million, respectively, in merger-related costs and litigation expenses. The total merger-related costs and litigation expenses for Fiscal 2008 of \$27.6 million are tax deductible in Fiscal 2009 and will result in a permanent tax benefit reflected as a component of income tax expense. For additional information, see the Merger-Related Litigation section in Note 10.

Restructuring and Other Charges

The Company recorded a pretax charge to earnings of \$2.3 million in the third quarter of Fiscal 2009. The charge included \$1.9 million in retail store asset impairments and \$0.4 million for lease terminations. The Company recorded a pretax charge to earnings of \$7.8 million in the first nine months of Fiscal 2009. The charge included \$5.5 million in retail store asset impairments, \$1.2 million for lease terminations and \$1.1 million in other legal matters.

The Company recorded a pretax charge to earnings of \$0.1 million in the third quarter of Fiscal 2008. The charge was primarily for retail store asset impairments. The Company recorded a pretax charge to earnings of \$6.8 million in the first nine months of Fiscal 2008. The charge included \$6.8 million of charges for retail store asset impairments, primarily in the Underground Station Group, and \$0.3 million for the lease termination of one Hat World store, offset by a \$0.3 million excise tax refund.

Share Repurchase Program

In March 2008, the board authorized up to \$100.0 million in stock repurchases primarily funded with the after-tax cash proceeds of the settlement of merger-related litigation with The Finish

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Line and UBS (see Notes 2 and 10). The Company repurchased 4.0 million shares at a cost of \$90.9 million during the nine months ended November 1, 2008.

Comparable Store Sales

Comparable store sales begin in the fifty-third week of a store's operation. Temporarily closed stores are excluded from the comparable store sales calculation for every full week of the store closing. Expanded stores are excluded from the comparable store sales calculation until the fifty-third week of operation in the expanded format.

E-commerce and catalog sales are excluded from comparable store sales calculations.

Results of Operations Third Quarter Fiscal 2009 Compared to Fiscal 2008

The Company's net sales in the third quarter ended November 1, 2008 increased 4.6% to \$389.8 million from \$372.5 million in the third quarter ended November 3, 2007. Gross margin increased 5.2% to \$197.9 million in the third quarter this year from \$188.1 million in the same period last year and increased as a percentage of net sales from 50.5% to 50.8%. Selling and administrative expenses in the third quarter this year increased 3.0% from the third quarter last year but decreased as a percentage of net sales from 46.8% to 46.0%. The Company records buying and merchandising and occupancy costs in selling and administrative expense. Because the Company does not include these costs in cost of sales, the Company's gross margin may not be comparable to other retailers that include these costs in the calculation of gross margin. Explanations of the changes in results of operations are provided by business segment in discussions following these introductory paragraphs.

Earnings before income taxes from continuing operations (pretax earnings) for the third quarter ended November 1, 2008 were \$13.8 million compared to \$10.3 million for the third quarter ended November 3, 2007. Pretax earnings for the third quarter ended November 1, 2008 included restructuring and other charges of \$2.3 million, primarily for retail store asset impairments and lease terminations. Pretax earnings for the third quarter of Fiscal 2009 also included \$0.2 million in merger-related expenses. Pretax earnings for the third quarter ended November 3, 2007 included restructuring and other charges of \$0.1 million, primarily for retail store asset impairments and \$6.1 million in merger-related expenses.

Net earnings for the third quarter ended November 1, 2008 were \$9.4 million (\$0.43 diluted earnings per share) compared to \$5.6 million (\$0.23 diluted earnings per share) for the third quarter ended November 3, 2007. The Company recorded an effective income tax rate of 31.4% in the third quarter this year compared to 45.5% in the same period last year. The variance in the effective tax rate for the third quarter this year compared to the third quarter last year is attributable to non-deductible expenses incurred in Fiscal 2008 related to the merger agreement with the Finish Line that became deductible upon termination of the merger agreement in Fiscal 2009. In addition, this year's effective tax rate is lower due to a \$1.2 million reduction in FIN 48 liabilities from an agreement reached on a state income tax contingency. See Significant Developments Terminated Merger Agreement, above.

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	Three Months Ended		%
	November 1, 2008	November 3, 2007	
	(dollars in thousands)		
Net sales	\$ 200,745	\$ 182,587	9.9%
Earnings from operations	\$ 16,901	\$ 15,336	10.2%
Operating margin	8.4%	8.4%	

Net sales from Journeys Group increased 9.9% for the third quarter ended November 1, 2008 compared to the same period last year. The increase reflects primarily an 8% increase in average Journeys Group stores operated (i.e., the sum of the number of stores open on the first day of the fiscal quarter and the last day of each fiscal month during the quarter divided by four) and a 5% increase in comparable store sales. The increase in comparable store sales was primarily due to a 4% increase in average price per pair of shoes, reflecting changes in product mix, and a 2% increase in footwear unit comparable sales. Overall unit sales increased 8% during the same period. Journeys Group operated 1,008 stores at the end of the third quarter of Fiscal 2009, including 137 Journeys Kidz stores and 53 Shi by Journeys stores, compared to 945 stores at the end of the third quarter last year, including 103 Journeys Kidz stores and 40 Shi by Journeys stores.

Journeys Group earnings from operations for the third quarter ended November 1, 2008 increased 10.2% to \$16.9 million, compared to \$15.3 million for the third quarter ended November 3, 2007. The increase was due to increased net sales and to increased gross margin as a percentage of net sales, reflecting changes in product mix, partially offset by increased expenses as a percentage of net sales. The expense increase reflected increased rent from new stores, lease renewals and relocation from smaller, volume constrained locations to bigger stores in order to offer a broader selection of products, as well as increased bonus accruals based on improved performance.

Underground Station Group

	Three Months Ended		%	
	November 1, 2008	November 3, 2007		
	(dollars in thousands)			
Net sales	\$ 24,266	\$ 26,792	(9.4)%	
Loss from operations	\$ 1.17	\$ 0.98	19.4%	
Effective Tax Rate	34.0%	33.1%	34.0%	34.3%

Other Income

During the three months ended February 29, 2008, other income decreased \$0.4 million or 20.4%, year over year. Other income advanced \$0.2 million or 5.8% during the first half of fiscal 2008 as compared to the same period a year ago. The decline in other income during the second quarter of fiscal 2008 was a result of reallocating investments to U.S. government backed securities and the Federal Reserve lowering U.S. interest rates by 150 basis points during the second quarter of fiscal 2008.

Table of Contents**Income Taxes**

For the three months ended February 29, 2008, the provision for income taxes increased to \$15.2 million from \$13.1 million in the comparable prior year period. For the six months ended February 29, 2008, the provision for income taxes increased to \$30.3 million from \$26.2 million in the comparable prior year period. Our effective tax rate for the three and six months ended February 29, 2008 was 34.0%. Our estimated annual effective tax rate as of February 29, 2008 was 34.3%, which included the adverse impact from the expiration of the U.S. Federal R&D tax credit on December 31, 2007. The expiration caused our effective tax rate to increase 70 basis points in the second quarter. The R&D credit, enacted in 1981 has been extended thirteen times by Congress and lapsed for one year from July 1995 through June 1996.

Net Income and Earnings per Share

Net income rose 11.4% to \$29.5 million and diluted earnings per share increased 13.5% to \$0.59 for the three months ended February 29, 2008. During the first half of fiscal 2008, net income advanced 17.1% to \$58.9 million and diluted earnings per share increased 19.4% to \$1.17 as compared to same period a year ago. Excluding the pre-tax charge of \$2.4 million related to an increase in the estimate of the number of performance-based stock options that will vest in August 2008, non-GAAP net income and non-GAAP diluted earnings per share advanced 17.4% and 19.2%, respectively, in the second quarter of fiscal 2008 as compared to the same period a year ago.

Use of non-GAAP Financial Measures

Financial measures in accordance with generally accepted accounting principles (GAAP) including revenues, operating expenses, operating margins, net income and diluted earnings per share have been adjusted to report non-GAAP financial measures that exclude revenues attributable to the impact of foreign currency, non-subscription revenues and a charge of \$2.4 million related to an increase in the estimate of the number of performance-based stock options that will vest in August 2008. We use these non-GAAP financial measures, both in presenting our results to shareholders and the investment community, and in our internal evaluation and management of the businesses. We believe that these financial measures and the information we provide are useful to investors because it permits investors to view our performance using the same tool that management uses to gauge progress in achieving our goals. Investors may benefit from referring to these non-GAAP financial measures in assessing our performance and when planning, forecasting and analyzing future periods and may also facilitate comparisons to our historical performance.

Foreign Currency

Certain wholly-owned subsidiaries within the European and Asia Pacific segments operate under a functional currency different from the U.S. dollar. The financial statements of these foreign subsidiaries are translated into U.S. dollars using period-end rates of exchange for assets and liabilities, and average rates for the period for revenues and expenses. Translation gains (losses) that arise from translating assets, liabilities, revenues and expenses of foreign operations are recorded in accumulated other comprehensive income as a component of stockholders' equity.

Our primary foreign currency exchange exposures are related to our operating expense base in countries outside the U.S., where approximately 30% of our employees are located. To limit our exposure related to the effects of foreign exchange rate fluctuations, we may utilize derivatives (foreign currency contracts). We do not enter into foreign currency forward contracts for trading or speculative purposes.

Commencing in February 2008, we entered into foreign currency forward contracts with an aggregate notional value of 6.0 million Euros and maturities up to six months to reduce the short-term effects of foreign currency fluctuations. These transactions are designated as cash flow hedges. The effective portion of the derivative's gain or loss is initially reported as a component of accumulated other comprehensive income and subsequently reclassified into earnings when the hedged exposure affects earnings.

As depicted in the chart below, our non-dollar denominated revenues to be recognized over the next twelve months are estimated to be \$31 million while our non-dollar denominated expenses are \$109 million, which translates into a net foreign currency exposure of \$78 million per year or \$19.5 million per quarter.

(In thousands)	Annualized Foreign Currency Exposure		
	Revenues	Expenses	Net Exposure
Euro	\$ 3,980	\$ 37,653	\$ (33,673)
British Pound Sterling	16,736	60,175	(43,439)
Other	10,287	11,242	(955)

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Total	\$ 31,003	\$ 109,070	\$ (78,067)
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To reduce variability in operating expenses caused by Euro denominated operating expenses, we entered into foreign currency forward contracts with maturities up to six months. Based on our view of the correlation between the British Pound Sterling and the U.S. dollar, we have not hedged our exposure to the British Pound Sterling as of February 29, 2008. These hedging programs are not designed to provide foreign currency protection over longer time horizons. In designing a specific hedging approach, we considered several factors, including offsetting exposures, significance of exposures, forecasting risk and potential effectiveness of the hedge. The gains and losses on foreign exchange contracts mitigate the variability in operating expenses associated with currency movements. Primarily because our operations are in regions with stable currencies, the effect of foreign currency fluctuations has not been material to our Consolidated Financial Statements.

There was no gain or loss on derivatives recorded in our Consolidated Income Statement for the three and six months ended February 29, 2008. At February 29, 2008, the notional amount of all foreign currency forward contracts outstanding was 4.5 million Euros. The fair value of all derivative instruments recorded in our Consolidated Statement of Financial Condition at February 29, 2008 was \$0.1 million in other current assets and \$0.1 million in accumulated other comprehensive income.

Liquidity

The table below, for the periods indicated, provides selected cash flow information (in thousands):

Six months ended	February 29, 2008	February 28, 2007
Net cash provided by operating activities	\$ 44,807	\$ 48,107
Capital expenditures (2)	13,060	15,300
Free cash flow (1)	\$ 31,747	\$ 32,807
Net cash used in investing activities	\$ (33,161)	\$ (15,571)
Net cash used in financing activities	\$ (57,271)	\$ (20,225)
Cash and cash equivalents	\$ 123,380	\$ 139,142

⁽¹⁾ We define free cash flow as cash provided by operating activities, which includes the cash cost for taxes and changes in working capital, less capital expenditures. Free cash flow is not intended as an alternative measure of cash flows provided by operating activities, as determined in accordance with generally accepted accounting principles in the United States. We use this financial measure, both in presenting our results to shareholders and the investment community, and in our internal evaluation and management of the businesses. Management believes that this financial measure and the information we provide are useful to investors because they permit investors to view our performance using the same tools that management uses to gauge progress in achieving our goals. This measure is also useful to investors because it is an indication of cash flow that may be available to fund further investments in future growth initiatives.

⁽²⁾ Included in net cash used in investing activities during each period reported above.

Cash and cash equivalents aggregated to \$123.4 million or 23% of our total assets at February 29, 2008, compared with \$139.1 million or 28% of our total assets at February 28, 2007. All our operating and capital expense requirements were financed entirely from cash generated from our operations. Our cash and cash equivalents decreased \$45.5 million since August 31, 2007 as a result of cash outflows of \$65.4 million related to stock repurchases, \$29.0 million from the payment of variable employee compensation, \$13.9 million from the acquisition of DealMaven, dividends paid of \$11.5 million and capital expenditures of \$12.9 million, net of landlord contributions, partially offset from cash provided by operations of \$44.8 million and \$19.7 million from the exercise of employee stock options.

During the last twelve months, free cash flows rose 24% to \$115.6 million. Free cash flows generated during the second quarter of fiscal 2008 were \$23.7 million, up 33% from \$17.8 million over the year ago quarter. Drivers of free cash flow during the second quarter of fiscal 2008 were record levels of net income and higher non-cash expenses partially offset by a decline in working capital. The decline in working capital was caused by a \$7.3 million increase in accounts receivable and the timing of U.S. federal estimated tax payments.

The increase in accounts receivable was primarily due to the issuance of invoices for services to be provided over the next twelve months that aggregated to approximately \$11 million during the second quarter of fiscal 2008. DSO has been reduced by 18% to a low of approximately 45 days at February 29, 2008 as compared to 55 days at February 28, 2007. Over the last twelve months, accounts receivable has increased 1% while ASV has advanced 22%.

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Regarding the timing of the U.S. federal tax payments, we historically remit two estimated tax payments for the first half of the year during the second quarter. Estimated tax payments during the second quarter of fiscal 2008 were \$33.0 million, up from \$23.4 million in the year ago quarter. This additional cash outlay reduced fiscal 2008 free cash flow by an incremental \$9.6 million.

Table of Contents**Capital Resources****Capital Expenditures**

For the quarter ended February 29, 2008 capital expenditures, net of landlord contributions, totaled \$7.4 million, up from \$7.3 million in the same period a year ago. Expenditures for computer equipment were \$5.2 million and the remainder covered office space expansion. Major computer expenditures included adding six Hewlett Packard Integrity mainframes to our data centers, which successfully completed the upgrade to Hewlett Packard Integrity mainframes from Hewlett Packard Alpha mainframes. During the first half of the year capital expenditures were \$13.1 million, net of landlord contributions for construction. As a result, our system capacity has been expanded by 40% and the system speed is approximately 20% faster. The cost per Integrity mainframe is 35% less than an Alpha mainframe and the power consumption has been reduced by a third.

Capital Needs

We currently have no other outstanding indebtedness, other than the letters of credit issued in the ordinary course of business, as discussed below.

In February 2008, we renewed both our 364-day revolving credit facility and our three-year credit facility. The credit facilities (the facilities) are available in an aggregate principal amount of up to \$25.0 million for working capital and general corporate purposes, with the facilities split into two equal tranches and maturing in March 2009 and 2011. Approximately \$3.9 million in aggregate of these credit facilities has been utilized for letters of credit issued during the ordinary course of business as of February 29, 2008. We are obligated to pay a commitment fee on the unused portion of the facilities at a weighted average annual rate of 0.125%. The facilities also contain covenants that, among other things, require us to maintain minimum levels of consolidated net worth and certain leverage and fixed charge ratios.

Business Combinations*DealMaven, Inc.*

On January 31, 2008, we acquired DealMaven, Inc. (DealMaven) for \$14.0 million in cash. Formed in 1999, DealMaven provides tools to improve the workflow of investment bankers when working in Microsoft Excel and helps firms gather, analyze, check and present data more efficiently. DealMaven's financial analysis training has also been deployed by several bulge bracket investment banks. The company is headquartered in New York City and supported by approximately 17 employees.

The acquisition is consistent with our strategy of developing tools to make client workflows more efficient. This factor contributed to a purchase price in excess of fair value of the DealMaven net tangible and intangible assets, and as a result, we have recorded goodwill in connection with this transaction.

The total purchase price of the acquisition is as follows (in thousands):

Cash consideration	\$ 14,000
Estimated working capital	624
Direct acquisition costs	11
 Total purchase price	 \$ 14,635

Allocation of the purchase price to the assets acquired and liabilities assumed has not been finalized for this acquisition. The final purchase price is dependent on the actual direct acquisition costs and the final working capital adjustment. The estimated purchase price is being allocated to DealMaven's net tangible and intangible assets based upon their estimated fair value as of the date of acquisition. Based upon the purchase price and the valuation, the preliminary purchase price allocation is as follows (in thousands):

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Tangible assets acquired	\$ 1,261
Amortizable intangible assets:	
Software technology	1,856
Client relationships	1,040
Non-compete agreements	105
Goodwill	11,998
Total assets acquired	16,260
Liabilities assumed	(1,625)
Net assets acquired	\$ 14,635

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Intangible assets of \$3.0 million have been allocated to amortizable intangible assets consisting of software technology, amortized over five years using a straight-line amortization method; client relationships, amortized over five years using an accelerated amortization method; and non-compete agreements, amortized over two years using a straight-line amortization method.

Goodwill totaling \$12.0 million represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, goodwill will not be amortized and will be tested for impairment at least annually. Goodwill generated from the DealMaven acquisition is included in the U.S. segment and is not deductible for income tax purposes.

The results of operations of DealMaven have been included in our Consolidated Statement of Income since the completion of the acquisition on January 31, 2008. Pro forma information has not been presented because the effect of this acquisition was not material on our consolidated financial results.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of SEC Regulation S-K as of February 29, 2008.

Contractual Obligations

Fluctuations in our operating results, the degree of success of our accounts receivable collection efforts, the timing of tax and other payments as well as necessary capital expenditures to support growth of our operations will impact our liquidity and cash flows in future periods. The effect of our contractual obligations on our liquidity and capital resources in future periods should be considered in conjunction with the factors mentioned here. During the three and six months ended February 29, 2008, there were no significant changes to our contractual obligations as of August 31, 2007.

Share Repurchases

On January 25, 2008, our Board of Directors approved an expansion of the existing share repurchase program by an additional \$125 million. At that time, we completed the \$100 million expansion to the existing share repurchase program authorized by the Board on March 19, 2007. Repurchases will be made from time to time in the open market and privately negotiated transactions, subject to market conditions. No minimum number of shares to be repurchased has been fixed. There is no timeframe to complete the repurchase program and it is expected that share repurchases will be paid using existing and future cash generated by operations. During the six months ended February 29, 2008, we repurchased 1,126,131 shares at an average cost of \$57.78 per share under the program. At February 29, 2008, \$117.1 million remains authorized for future share repurchases. The remaining 4,819 shares repurchased during the first half of fiscal 2008 were repurchases of common stock owned by employees in the Employee Stock Ownership Plan, which was terminated on June 20, 2005.

Dividends

On February 12, 2008, we announced a regular quarterly dividend of \$0.12 per share. The cash dividend of \$5.8 million was paid on March 18, 2008, to common stockholders of record on February 29, 2008. Cash dividends will be paid using existing and future cash generated by operations.

Significant Accounting Policies and Critical Accounting Estimates

We describe our significant accounting policies in Note 2, *Accounting Policies*, of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended August 31, 2007. We discuss our critical accounting estimates in 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 August 31, 2007. With the exception of the adoption of FIN 48 as of September 1, 2007, there were no significant changes in our accounting policies or critical accounting estimates since the end of fiscal 2007. As a result of the adoption of FIN 48, we reduced current taxes payable by \$0.2 million and increased non-current deferred tax assets by \$1.1 million. The adoption of FIN 48 was accounted for as a cumulative effect of a change in accounting principle and accordingly, increased retained earnings by \$1.3 million. As of February 29, 2008, gross unrecognized tax benefits were \$4.1 million, of which \$1.0 million related to the accrual of interest and penalties.

New Accounting Pronouncements

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See Note 3 to the consolidated financial statements for a full description of recent accounting pronouncements, including the expected dates of adoption, which we include here by reference.

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Forward-Looking Factors

Forward-Looking Statements

This Quarterly Report on Form 10-Q, including Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements regarding future events and our future results that are subject to the safe harbors created under the Securities Act of 1933 and the Securities Exchange Act of 1934. All statements that address expectations or projections about the future, including without limitation statements about our strategy for growth, product development, market position, subscriptions and expected expenditures and financial results are forward-looking statements. Forward-looking statements may be identified by words like "expected," "anticipates," "plans," "intends," "projects," "should," "indicates," "continues," "subscriptions," and similar expressions. These statements are not guarantees of future performance and involve a number of risks, uncertainties and assumptions ("future factors"). Therefore, actual results may differ materially and adversely from what is expressed or forecasted in such forward-looking statements. We will publicly update forward-looking statements as a result of new information or future events in accordance with applicable Securities and Exchange Commission regulations.

Risk Factors

Investors should carefully consider the risks described below before making an investment decision. These risks are not the only ones we face. Additional risks we are not presently aware of or that we currently believe are immaterial may also impair our business operations. Our business could be harmed by any of these risks. The trading price of our common stock could decline due to any of these risks. In assessing these risks, investors should also refer to the other information contained or incorporated by reference in this Quarterly Report on Form 10-Q filed with the SEC, including our consolidated financial statements and related notes thereto.

Risk factors which could cause future financial performance to differ materially from the expectations as expressed in any of our forward-looking statements made by or on our behalf include, without limitation:

The status of the global economy, including the financial status of global investment banks

Our ability to integrate newly acquired companies

The stability of the global securities markets

The protection and privacy of our client data

Our ability to hire and retain key qualified personnel

Prolonged outage at one of our data centers could result in reduced service and the loss of customers

Retention of key clients and their current service levels

Security holes within our products

The negotiation of contract terms supporting new and existing databases or products

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Maintenance of our leading technological position through the introduction of new products and product enhancements

Changes to our corporate headquarters or regional offices that impact our business continuity plan

Resolution of ongoing and other probable audits by tax authorities

Malicious, ignorant or illegal employee acts regarding insider information or client data

The ability to mitigate the risk of our software introducing a virus to client networks

The ability to achieve historical levels of profitability and growth rates for revenues, earnings per share and cash flows

Uncertain economic and financial market conditions may affect our revenues

Increased competition in our industry may cause price reductions or loss of market share

Third parties may claim infringement upon their intellectual property rights

Changes in accounting

Internal controls may be ineffective

Potential changes in securities laws and regulations governing the investment industry's use of soft dollars may reduce our revenues

Competition in our industry and the result of regulatory activity

The absence of U.S. or foreign governmental regulation restricting international business

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Business Outlook

The following forward-looking statements reflect our expectations as of April 9, 2008. Given the number of risk factors, uncertainties and assumptions discussed above, actual results may differ materially. We do not intend to update our forward-looking statements until our next quarterly results announcement, other than in publicly available statements.

Third Quarter Fiscal 2008 Expectations

Revenues are expected to range between \$145 million and \$149 million. This guidance assumes no revenues from Bear Stearns and that its pending sale will not result in additional revenues from displaced users being employed at new or existing clients.

Operating margins are expected to range between 30.5% and 32.5%. This operating margin guidance includes \$0.9 million of expenses related to the bi-annual FactSet engineering conference scheduled for May 2008.

The effective tax rate is expected to range between 34.0% and 35.0% and assumes the U.S. Federal R&D tax credit is not reenacted.

Full Year Fiscal 2008

Capital expenditures, net of landlord contributions, should total between \$35 million to \$41 million, a reduction in the range of \$3.0 million from the November 30, 2007 guidance.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have exposure to foreign exchange and interest rate risk. In the second quarter of fiscal 2008, we began transitioning our billing of JCF clients from local currency invoices to U.S. dollar invoices. As a result, our exposure to the Euro and British Pound Sterling is expected to increase by approximately \$7.3 million over the next twelve months. To limit our exposure related to the effects of foreign exchange rate fluctuations, we may continue to utilize derivatives (foreign currency contracts). Refer to the annualized foreign currency table disclosed in the *Foreign Currency* section within our Item 2, *Management's Discussion and Analysis of Financial Condition and Results of Operations* for further analysis of our market risk which incorporates the impact of our billing transition over the next twelve months.

There have been no material changes to our exposure to interest rate risks from those disclosed in our Annual Report on Form 10-K for the fiscal year ended August 31, 2007. Refer to *Market Sensitivities* in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations* section of our fiscal 2007 Annual Report on Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of the Company's management, including the principal executive officer and principal financial officer, the Company has evaluated the effectiveness of its disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of the end of the period covered by this report. Based on that evaluation, the principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, (the Exchange Act) are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

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Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the Company's second quarter of fiscal 2008 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents**PART II OTHER INFORMATION****ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

Items 2(a) and (b) are inapplicable.

- (c) The following table provides a month-to-month summary of the share repurchase activity under the current stock repurchase program during the three months ended February 29, 2008:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	(1) Maximum number of shares (or approximate dollar value) of shares that may yet be purchased under the plans or programs (in thousands)
December 2007				\$ 27,809
January 2008 (1)	565,982	\$ 52.40	565,982	123,154
February 2008	117,084	\$ 51.78	117,084	117,091
	683,066		683,066	\$ 117,091

- (1) On January 25, 2008, the Company's Board of Directors approved an expansion of the existing share repurchase program by an additional \$125 million. At that time, the Company completed the \$100 million expansion to the existing share repurchase program authorized by the Board on March 19, 2007. Repurchases will be made from time to time in the open market and privately negotiated transactions, subject to market conditions. No minimum number of shares to be repurchased has been fixed. There is no timeframe to complete the repurchase program and it is expected that share repurchases will be paid using existing and future cash generated by operations. The table does not include share repurchases of common stock owned by employees in the Employee Stock Ownership Plan, which was terminated on June 20, 2005.

ITEM 6. EXHIBITS

- (a) EXHIBITS:

EXHIBIT

NUMBER	DESCRIPTION
10.1	Ninth Amendment to 364-Day Credit Agreement, dated February 29, 2008
10.2	Third Amendment to Three Year Credit Agreement, dated February 28, 2008
31.1	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer
32.1	Section 1350 Certification of Principal Executive Officer
32.2	Section 1350 Certification of Principal Financial Officer

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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.

FACTSET RESEARCH SYSTEMS INC.
(Registrant)

Date: April 9, 2008

/s/ PETER G. WALSH
Peter G. Walsh
Senior Vice President, Chief Financial Officer and Treasurer

(Principal Financial Officer)

/s/ MAURIZIO NICOLELLI
Maurizio Nicoelli
Vice President and Comptroller

(Principal Accounting Officer)

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