

GENESCO INC  
Form 10-Q  
June 09, 2011

**UNITED STATES 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 the Quarter Ended April 30, 2011**

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

**for the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File No. 1-3083**

**Genesco Inc.**

(Exact name of registrant as specified in its charter)

**Tennessee Corporation**  
(State or other jurisdiction of  
incorporation or organization)

**62-0211340**  
(I.R.S. Employer  
Identification No.)

**Genesco Park, 1415 Murfreesboro Road**  
**Nashville, Tennessee**  
(Address of principal executive offices)

**37217-2895**  
(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232-405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer; an accelerated filer; a non-accelerated filer; or a smaller reporting company. See 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 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   
As of May 27, 2011, 23,709,127 shares of the registrant's common stock were outstanding.

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**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****Genesco Inc.  
and Subsidiaries**

Condensed Consolidated Balance Sheets

(In Thousands, except share amounts)

<b>Assets</b>	<b>April 30, 2011</b>	January 29, 2011	May 1 2010
<b><i>Current Assets</i></b>			
Cash and cash equivalents	<b>\$ 56,760</b>	\$ 55,934	\$ 105,399
Accounts receivable, net of allowances of \$4,359 at April 30, 2011, \$3,301 at January 29, 2011 and \$3,430 at May 1, 2010	<b>43,858</b>	44,512	29,411
Inventories	<b>371,802</b>	359,736	295,514
Deferred income taxes	<b>19,522</b>	19,130	17,265
Prepays and other current assets	<b>34,333</b>	33,743	33,752
<b>Total current assets</b>	<b>526,275</b>	513,055	481,341
<b>Property and equipment:</b>			
Land	<b>4,863</b>	4,863	4,863
Buildings and building equipment	<b>17,992</b>	17,992	17,992
Computer hardware, software and equipment	<b>96,785</b>	92,929	87,194
Furniture and fixtures	<b>105,099</b>	105,056	102,086
Construction in progress	<b>8,093</b>	9,109	5,297
Improvements to leased property	<b>281,296</b>	279,295	275,610
<b>Property and equipment, at cost</b>	<b>514,128</b>	509,244	493,042
Accumulated depreciation	<b>(318,063)</b>	(310,553)	(284,310)
<b>Property and equipment, net</b>	<b>196,065</b>	198,691	208,732
Deferred income taxes	<b>19,822</b>	19,036	14,246
Goodwill	<b>153,301</b>	153,301	118,979
Trademarks, net of accumulated amortization of \$1,440 at April 30, 2011, \$1,151 at January 29, 2011 and \$524 at May 1, 2010	<b>52,213</b>	52,486	52,707
Other intangibles, net of accumulated amortization of \$11,135 at April 30, 2011, \$10,565 at January 29, 2011 and \$8,977 at May 1, 2010	<b>12,008</b>	12,578	3,488
Other noncurrent assets	<b>12,060</b>	11,935	8,607
<b>Total Assets</b>	<b>\$ 971,744</b>	\$ 961,082	\$ 888,100

**Genesco Inc.  
and Subsidiaries**

Condensed Consolidated Balance Sheets

(In Thousands, except share amounts)

	<b>April 30, 2011</b>	January 29, 2011	May 1, 2010
<b>Liabilities and Equity</b>			
<i><b>Current Liabilities</b></i>			
Accounts payable	<b>\$ 127,434</b>	\$ 117,001	\$ 111,163
Accrued employee compensation	<b>25,355</b>	38,188	16,887
Accrued other taxes	<b>15,029</b>	17,289	12,111
Accrued income taxes	<b>11,655</b>	13,259	5,684
Other accrued liabilities	<b>37,148</b>	38,177	32,434
Provision for discontinued operations	<b>10,128</b>	10,449	9,480
Total current liabilities	<b>226,749</b>	234,363	187,759
Long-term debt	<b>-0-</b>	-0-	-0-
Pension liability	<b>12,442</b>	11,906	17,070
Deferred rent and other long-term liabilities	<b>83,917</b>	83,406	85,047
Provision for discontinued operations	<b>4,594</b>	4,586	6,048
Total liabilities	<b>327,702</b>	334,261	295,924
Commitments and contingent liabilities			
<i><b>Equity</b></i>			
Non-redeemable preferred stock	<b>5,181</b>	5,183	5,195
Common equity:			
Common stock, \$1 par value:			
Authorized: 80,000,000 shares			
Issued/Outstanding:			
April 30, 2011 24,178,159/23,689,695			
January 29, 2011 24,162,634/23,674,170			
May 1, 2010 24,538,841/24,050,377	<b>24,178</b>	24,163	24,539
Additional paid-in capital	<b>133,848</b>	131,910	147,869
Retained earnings	<b>519,968</b>	505,224	460,777
Accumulated other comprehensive loss	<b>(23,668)</b>	(24,305)	(28,347)
Treasury shares, at cost	<b>(17,857)</b>	(17,857)	(17,857)
Total Genesco equity	<b>641,650</b>	624,318	592,176
Noncontrolling interest non-redeemable	<b>2,392</b>	2,503	-0-
Total equity	<b>644,042</b>	626,821	592,176
<b>Total Liabilities and Equity</b>	<b>\$ 971,744</b>	\$ 961,082	\$ 888,100

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



**Genesco Inc.  
and Subsidiaries**

Condensed Consolidated Statements of Operations

(In Thousands, except per share amounts)

	<b>Three Months Ended</b>	
	<b>April 30, 2011</b>	<b>May 1, 2010</b>
Net sales	<b>\$ 481,502</b>	\$ 400,853
Cost of sales	<b>233,960</b>	192,782
Selling and administrative expenses	<b>220,773</b>	191,077
Restructuring and other, net	<b>1,244</b>	2,443
Earnings from operations	<b>25,525</b>	14,551
Interest expense, net:		
Interest expense	<b>516</b>	236
Interest income	<b>(2)</b>	(1)
Total interest expense, net	<b>514</b>	235
Earnings from continuing operations before income taxes	<b>25,011</b>	14,316
Income tax expense	<b>10,036</b>	5,753
Earnings from continuing operations	<b>14,975</b>	8,563
(Provision for) earnings from discontinued operations, net	<b>(182)</b>	53
<b>Net Earnings</b>	<b>\$ 14,793</b>	\$ 8,616
Basic earnings per common share:		
Continuing operations	<b>\$ 0.65</b>	\$ 0.36
Discontinued operations	<b>(0.01)</b>	0.01
Net earnings	<b>\$ 0.64</b>	\$ 0.37
Diluted earnings per common share:		
Continuing operations	<b>\$ 0.63</b>	\$ 0.36
Discontinued operations	<b>0.00</b>	0.00
Net earnings	<b>\$ 0.63</b>	\$ 0.36

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

**Genesco Inc.  
and Subsidiaries**

Condensed Consolidated Statements of Cash Flows  
(In Thousands)

	<b>Three Months Ended</b>	
	<b>April 30, 2011</b>	May 1, 2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net earnings	\$ 14,793	\$ 8,616
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	12,202	11,893
Amortization of deferred note expense and debt discount	146	104
Deferred income taxes	(1,213)	(710)
Provision for losses on accounts receivable	241	298
Impairment of long-lived assets	747	2,356
Restricted stock and share-based compensation	1,596	1,711
Provision for discontinued operations	300	(88)
Other	349	346
Effect on cash from changes in working capital and other assets and liabilities		
Accounts receivable	413	(2,581)
Inventories	(12,066)	(4,541)
Prepays and other current assets	(589)	(1,333)
Accounts payable	13,712	19,320
Other accrued liabilities	(19,728)	4,297
Other assets and liabilities	1,095	(3,786)
Net cash provided by operating activities	11,998	35,902
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(9,597)	(6,540)
Acquisitions, net of cash acquired	-0-	(3,445)
Proceeds from asset sales	-0-	2
Net cash used in investing activities	(9,597)	(9,983)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments of capital leases	(21)	(41)
Shares repurchased	-0-	(2,075)
Change in overdraft balances	(3,278)	(856)
Dividends paid on non-redeemable preferred stock	(49)	(49)
Exercise of stock options	1,839	353
Other	(66)	-0-
Net cash used in financing activities	(1,575)	(2,668)
<b>Net Increase in Cash and Cash Equivalents</b>	<b>826</b>	<b>23,251</b>

Cash and cash equivalents at beginning of period	<b>55,934</b>	82,148
<b>Cash and cash equivalents at end of period</b>	<b>\$ 56,760</b>	\$ 105,399

**Supplemental Cash Flow Information:**

Net cash paid for:

Interest	<b>\$ 285</b>	\$ 127
Income taxes	<b>12,134</b>	460

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



**Genesco Inc.  
and Subsidiaries**

Condensed Consolidated Statements of Equity

In Thousands

	Total Non- Redeemable Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accum Other Compre- hensive Loss	Treasury Stock	Non Control- ling Interest Non- Redeem- able	Compre- hensive Income	Total Equity
Balance									
January 30, 2010	\$ 5,220	\$ 24,563	\$ 146,981	\$ 452,210	\$ (28,804)	\$ (17,857)	\$ -0-		\$ 582,313
Net earnings	-0-	-0-	-0-	53,211	-0-	-0-	-0-	\$ 53,211	53,211
Dividends paid on non-redeemable preferred stock	-0-	-0-	-0-	(197)	-0-	-0-	-0-	-0-	(197)
Exercise of stock options	-0-	118	2,105	-0-	-0-	-0-	-0-	-0-	2,223
Issue shares Employee Stock Purchase Plan	-0-	4	116	-0-	-0-	-0-	-0-	-0-	120
Employee and non-employee restricted stock	-0-	-0-	7,796	-0-	-0-	-0-	-0-	-0-	7,796
Share-based compensation	-0-	-0-	210	-0-	-0-	-0-	-0-	-0-	210
Restricted stock issuance	-0-	423	(423)	-0-	-0-	-0-	-0-	-0-	-0-
Restricted shares withheld for taxes	-0-	(82)	(2,293)	-0-	-0-	-0-	-0-	-0-	(2,375)
Tax benefit of stock options and restricted stock exercised	-0-	-0-	1,342	-0-	-0-	-0-	-0-	-0-	1,342
Shares repurchased	-0-	(864)	(23,961)	-0-	-0-	-0-	-0-	-0-	(24,825)
Gain on foreign currency forward contracts (net of tax of \$0.1 million)	-0-	-0-	-0-	-0-	166	-0-	-0-	166	166
Pension liability adjustment (net	-0-	-0-	-0-	-0-	3,921	-0-	-0-	3,921	3,921

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of tax of \$2.7 million)									
Postretirement liability adjustment (net of tax benefit of \$0.1 million)	-0-	-0-	-0-	-0-	(131)	-0-	-0-	(131)	(131)
Foreign currency translation adjustment	-0-	-0-	-0-	-0-	543	-0-	-0-	543	543
Other	(37)	1	37	-0-	-0-	-0-	-0-	-0-	1
Noncontrolling interest non-redeemable	-0-	-0-	-0-	-0-	-0-	-0-	2,503	-0-	2,503
Comprehensive income								\$ 57,710	
Balance January 29, 2011	5,183	24,163	131,910	505,224	(24,305)	(17,857)	2,503		626,821
Net earnings	-0-	-0-	-0-	14,793	-0-	-0-	-0-	\$ 14,793	14,793
Dividends paid on non-redeemable preferred stock	-0-	-0-	-0-	(49)	-0-	-0-	-0-	-0-	(49)
Exercise of stock options	-0-	55	1,784	-0-	-0-	-0-	-0-	-0-	1,839
Employee and non-employee restricted stock	-0-	-0-	1,595	-0-	-0-	-0-	-0-	-0-	1,595
Share-based compensation	-0-	-0-	1	-0-	-0-	-0-	-0-	-0-	1
Restricted shares withheld for taxes	-0-	(38)	(1,447)	-0-	-0-	-0-	-0-	-0-	(1,485)
Gain on foreign currency forward contracts (net of tax of \$0.0 million)	-0-	-0-	-0-	-0-	54	-0-	-0-	54	54
Foreign currency translation adjustment	-0-	-0-	-0-	-0-	583	-0-	-0-	583	583
Other	(2)	(2)	5	-0-	-0-	-0-	-0-	-0-	1
Noncontrolling interest earnings (loss)	-0-	-0-	-0-	-0-	-0-	-0-	(111)	-0-	(111)
Comprehensive income*								\$ 15,430	

**Balance**

<b>April 30, 2011</b>	<b>\$ 5,181</b>	<b>\$ 24,178</b>	<b>\$ 133,848</b>	<b>\$ 519,968</b>	<b>\$ (23,668)</b>	<b>\$ (17,857)</b>	<b>\$ 2,392</b>	<b>\$ 644,042</b>
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\* Comprehensive income was \$9.1 million for the first quarter ended May 1, 2010.  
The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements.

**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 28, 2012 ( Fiscal 2012 ) and of the fiscal year ended January 29, 2011 ( Fiscal 2011 ). 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 business includes the design and sourcing, marketing and distribution of footwear and accessories through retail stores in the U.S., Puerto Rico and Canada primarily under the *Journeys*, *Journeys Kidz*, *Shi by Journeys*, *Johnston & Murphy*, and *Underground Station* banners; through e-commerce websites including *journeys.com*, *journeyskidz.com*, *shibyjourneys.com*, *undergroundstation.com*, and *johnstonmurphy.com*, and at wholesale, primarily under the Company's *Johnston & Murphy* brand and the *Dockers* brand, which the Company licenses for men's footwear. The Company's business also includes Lids Sports, which operates headwear and accessory stores in the U.S. and Canada primarily under the *Lids*, *Hat World and Hat Shack* banners; the Lids Locker Room business, consisting of sports-oriented fan shops featuring a broad array of licensed merchandise such as apparel, hats and accessories, sports decor and novelty products, operating primarily under the *Lids Locker Room*, *Sports Fan-Attic* and *Sports Avenue* banners; an e-commerce business conducted primarily through the *lids.com* website; and an athletic team dealer business operating as Lids Team Sports. Including both the footwear businesses and the Lids Sports business, at April 30, 2011, the Company operated 2,291 retail stores in the U.S., Puerto Rico and Canada.

***Principles of Consolidation***

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

***Financial Statement Reclassifications***

Certain reclassifications have been made to conform prior years' data to the current year presentation. In the three months ended May 1, 2010 Condensed Consolidated Statements of Cash Flows, amortization of intangibles totaling approximately \$0.2 million, was reclassified from other to depreciation and amortization under adjustments to reconcile net earnings to net cash provided by operating activities. Certain expenses previously allocated to the corporate segment have been reallocated to operating segments beginning in Fiscal 2012. Segment operating income (loss) for the three months ended May 1, 2010 has been restated by operating segment totaling \$1.5 million with an offsetting increase to corporate and other operating income to conform to the current year presentation (See Note 9).

**Genesco Inc.  
and Subsidiaries**

Notes to Condensed Consolidated Financial Statements

**Note 1**

**Summary of Significant Accounting Policies, Continued**

*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 footwear wholesale operations and its Lids Sports Group wholesale operations, except for the Anaconda Sports operation, 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.

The Lids Sports retail segment and its Anaconda Sports wholesale division employ the moving average cost method for valuing inventories and apply freight using an allocation method. The Company provides a valuation allowance for slow-moving inventory based on negative margins and estimated shrink based on historical experience and specific analysis, where appropriate.

In its retail operations, other than the Lids Sports 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.

**Genesco Inc.  
and Subsidiaries**

Notes to Condensed Consolidated Financial Statements

**Note 1**

**Summary of Significant Accounting Policies, Continued**

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 with similar gross margins, 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.

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 reviews the carrying value 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 Notes 3 and 5.

The goodwill impairment test involves a two-step process. The first step is a comparison of the fair value and carrying value of the reporting unit with which the goodwill is associated. The Company estimates fair value using the best information available, and computes the fair value by an equal weighting of the results arrived by a market approach and an income approach utilizing discounted cash flow projections. The income approach uses a projection of a business unit's estimated operating results and cash flows that is discounted using a weighted-average cost of capital that reflects current market conditions. The projection uses management's best estimates of economic and market conditions over the projected period including growth rates in sales, costs, estimates of future expected changes in operating margins and cash expenditures. Other significant estimates and assumptions include terminal value growth rates, future estimates of capital expenditures and changes in future working capital requirements.

**Genesco Inc.  
and Subsidiaries**

Notes to Condensed Consolidated Financial Statements

**Note 1**

**Summary of Significant Accounting Policies, Continued**

If the carrying value of the reporting unit is higher than its fair value, there is an indication that impairment may exist and the second step must be performed to measure the amount of impairment loss. The amount of impairment is determined by comparing the implied fair value of reporting unit goodwill to the carrying value of the goodwill in the same manner as if the reporting unit was being acquired in a business combination. Specifically, the Company would allocate the fair value to all of the assets and liabilities of the reporting unit, including any unrecognized intangible assets, in a hypothetical analysis that would calculate the implied fair value of goodwill. If the implied fair value of goodwill is less than the recorded goodwill, the Company would record an impairment charge for the difference.

A key assumption in the Company's fair value estimate is the weighted average cost of capital utilized for discounting its cash flow projections in its income approach. The Company believes the rate it used in its annual test, which is completed in the fourth quarter each year, was consistent with the risks inherent in its business and with industry discount rates.

*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 8. The Company has made pretax accruals for certain of these contingencies, including approximately \$0.4 million in each of the first quarters of Fiscal 2012 and 2011. These charges are included in provision for discontinued operations, net in the Condensed Consolidated Statements of Operations (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.

**Genesco Inc.  
and Subsidiaries**

Notes to Condensed Consolidated Financial Statements

**Note 1**

**Summary of Significant Accounting Policies, Continued**

*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 estimated 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.

*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 increased in a period, the Company includes an expense within the tax provision in the Condensed Consolidated Statements of Operations. Income tax reserves are determined using the methodology required by the Income Tax Topic of the Accounting Standards Codification ( Codification ). This methodology 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*

Full-time employees who had at least 1,000 hours of service in calendar year 2004, except employees in the Lids Sports Segment, 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.



**Genesco Inc.  
and Subsidiaries**

Notes to Condensed Consolidated Financial Statements

**Note 1**

**Summary of Significant Accounting Policies, Continued**

As required by the Compensation Retirement Benefits Topic of the Codification, the Company is required 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.

The Company accounts for the defined benefit pension plans using the Compensation-Retirement Benefits Topic of the Codification. As permitted under this topic, 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. The Company recognizes compensation expense for share-based payments based on the fair value of the awards as required by the Compensation Stock Compensation Topic of the Codification. For the first quarter of Fiscal 2012 and 2011, share-based compensation expense was less than \$1,000 and \$0.1 million, respectively. The Company has not issued any new share-based compensation awards since the first quarter of Fiscal 2008. For each of the first quarters of Fiscal 2012 and 2011, restricted stock expense was \$1.6 million. The benefits of tax deductions in excess of recognized compensation expense are reported as a financing cash flow.

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 stock prices for a period that is commensurate with the expected term estimate. 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.

**Genesco Inc.  
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Notes to Condensed Consolidated Financial Statements

**Note 1**

**Summary of Significant Accounting Policies, Continued**

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 any stock options for the three months ended April 30, 2011 or May 1, 2010. During the three months ended April 30, 2011 and May 1, 2010, the Company did not issue any shares of employee restricted stock. There was no director retainer stock issued for the three months ended April 30, 2011 or May 1, 2010.

***Cash and Cash Equivalents***

Included in cash and cash equivalents at April 30, 2011, January 29, 2011 and May 1, 2010 are marketable securities of \$0.3 million, \$29.8 million and \$69.7 million, respectively. Marketable securities are highly-liquid financial instruments having an original maturity of three months or less. At April 30, 2011, substantially all of the Company's cash was invested in deposit accounts at FDIC-insured banks. All of the Company's deposit account balances are currently FDIC insured and will remain so through December 31, 2012 as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act. 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.

At April 30, 2011, January 29, 2011 and May 1, 2010 outstanding checks drawn on zero-balance accounts at certain domestic banks exceeded book cash balances at those banks by approximately \$32.8 million, \$36.1 million and \$31.1 million, respectively. These amounts are included in accounts payable.

***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. The Company's Lids Team Sports wholesale business sells primarily to college and high school athletic teams and their fan bases. Including both footwear wholesale and Lids Team Sports receivables, one customer accounted for 13% of the Company's total trade receivables balance, while no other customer accounted for more than 6% of the Company's total trade receivables balance as of April 30, 2011.

**Genesco Inc.  
and Subsidiaries**

Notes to Condensed Consolidated Financial Statements

**Note 1**

**Summary of Significant Accounting Policies, Continued**

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 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 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 Operations.

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 deferred rent.

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 \$17.7 million, \$18.4 million and \$21.2 million at April 30, 2011, January 29, 2011 and May 1, 2010, respectively, and deferred rent of \$33.5 million, \$33.0 million and \$31.6 million at April 30, 2011, January 29, 2011 and May 1, 2010, respectively, are included in deferred rent and other long-term liabilities on the Condensed Consolidated Balance Sheets.

**Genesco Inc.  
and Subsidiaries**

Notes to Condensed Consolidated Financial Statements

**Note 1**

**Summary of Significant Accounting Policies, Continued**

***Goodwill and Other Intangibles***

Under the provisions of the Intangibles – Goodwill and Other Topic of the Codification, goodwill and intangible assets with indefinite lives are not amortized, but are tested at least annually, during the fourth quarter, for impairment. The Company will update the tests between annual tests if events or circumstances occur that would more likely than not reduce the fair value of the business unit with which the goodwill is associated below its carrying amount. It is also required that intangible assets with finite lives be amortized over their respective lives to their estimated residual values, and reviewed for impairment in accordance with the Property, Plant and Equipment Topic of the Codification. Intangible assets of the Company with indefinite lives are primarily goodwill and identifiable trademarks acquired in connection with the acquisition of Hat World Corporation in April 2004. The Condensed Consolidated Balance Sheets include goodwill for the Lids Sports Group of \$152.5 million and \$0.8 million for Licensed Brands at April 30, 2011 and \$119.0 million for the Lids Sports Group at May 1, 2010. 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, projected future cash flows and observable market data. 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. The Company has not had an impairment charge for intangible assets.

Identifiable intangible assets of the Company with finite lives are primarily trademarks acquired in connection with the acquisition of Hat Shack, Inc. in January 2007, Impact Sports in November 2008, Great Plains Sports in September 2009, Sports Fan-Attic in November 2009, Brand Innovators in May 2010, Anaconda Sports in August 2010 and Sports Avenue in October 2010, customer lists, in-place leases and non-compete agreements. 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.

***Fair Value of Financial Instruments***

The Company did not have any outstanding financial instruments at April 30, 2011 or January 29, 2011.

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

**Genesco Inc.  
and Subsidiaries**

Notes to Condensed Consolidated Financial Statements

**Note 1**

**Summary of Significant Accounting Policies, Continued**

***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. 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 \$2.4 million and \$1.2 million for the first quarter of Fiscal 2012 and 2011, respectively.

***Gift Cards***

The Company has a gift card program that began in calendar 1999 for its Lids Sports 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.

Gift card breakage is recognized in revenues each period. Gift card breakage recognized as revenue was \$0.1 million and less than \$0.1 million for the first quarters of Fiscal 2012 and 2011, respectively. The Condensed Consolidated Balance Sheets include an accrued liability for gift cards of \$7.8 million, \$9.0 million and \$7.0 million at April 30, 2011, January 29, 2011 and May 1, 2010, 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.

**Genesco Inc.  
and Subsidiaries**

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 are included in the cost of inventory and are 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 Operations.

***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 the Property, Plant and Equipment Topic of the Codification, 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 Operations, 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 the Property, Plant and Equipment Topic of the Codification, 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 the Exit or Disposal Cost Obligations Topic of the Codification.

**Genesco Inc.  
and Subsidiaries**

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 \$9.7 million and \$8.2 million for the first quarter of Fiscal 2012 and 2011, respectively. Direct response advertising costs for catalogs are capitalized in accordance with the Other Assets and Deferred Costs Topic for Capitalized Advertising Costs of the Codification. 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 \$1.1 million, \$1.1 million and \$1.2 million at April 30, 2011, January 29, 2011 and May 1, 2010, 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 footwear 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 the Revenue Recognition Topic for Customer Payments and Incentives of the Codification.

Cooperative advertising costs recognized in selling and administrative expenses were \$0.9 million and \$0.8 million for the first quarter of Fiscal 2012 and 2011, respectively. During the first quarter of Fiscal 2012 and 2011, the Company's cooperative advertising reimbursements paid did not exceed the fair value of the benefits received under those agreements.

**Genesco Inc.  
and Subsidiaries**

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 \$0.9 million and \$0.8 million for the first quarters of Fiscal 2012 and 2011, respectively. During the first quarter of Fiscal 2012 and 2011, 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.

***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 7).



**Genesco Inc.  
and Subsidiaries**

Notes to Condensed Consolidated Financial Statements

**Note 1**

**Summary of Significant Accounting Policies, Continued**

***Other Comprehensive Income***

The Comprehensive Income Topic of the Codification 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 April 30, 2011 consisted of \$25.0 million of cumulative pension liability adjustments, net of tax, and \$0.1 million of cumulative postretirement liability adjustments, net of tax, offset by a foreign currency translation adjustment of \$1.4 million.

***Business Segments***

The Segment Reporting Topic of the Codification requires that companies disclose operating segments based on the way management disaggregates the Company's operations for making internal operating decisions (see Note 9).

***Derivative Instruments and Hedging Activities***

The Derivatives and Hedging Topic of the Codification requires 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. The Company has entered into a small amount of foreign currency forward exchange contracts in order to reduce exposure to foreign currency exchange rate fluctuations in connection with inventory purchase commitments for its Johnston & Murphy Group. 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 April 30, 2011 and May 1, 2010 were \$0.6 and \$0.8 million, respectively. For the three months ended April 30, 2011, the Company recorded an unrealized gain on foreign currency forward contracts of \$0.1 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 gains related to forward exchange contracts will be reclassified from accumulated other comprehensive loss into earnings through lower cost of sales over the succeeding year.

**Genesco Inc.  
and Subsidiaries**

Notes to Condensed Consolidated Financial Statements

**Note 2**

**Intangible Assets**

**Intangible Assets**

Other intangibles by major classes were as follows:

(In Thousands)	Leases		Customer Lists		Non-Compete Agreements/Backlog		Total	
	<b>Apr.</b>	Jan. 29,	<b>Apr.</b>	Jan 29,	<b>Apr.</b>	Jan. 29,	<b>Apr. 30,</b>	Jan. 29,
	<b>30,</b>	2011	<b>30,</b>	2011	<b>30,</b>	2011	<b>2011</b>	2011
Gross other intangibles	\$ <b>9,837</b>	\$ 9,837	\$ <b>12,206</b>	\$ 12,206	\$ <b>1,100</b>	\$ 1,100	\$ <b>23,143</b>	\$ 23,143
Accumulated amortization	( <b>8,594</b> )	(8,482)	( <b>1,878</b> )	(1,480)	( <b>663</b> )	(603)	( <b>11,135</b> )	(10,565)
<b>Net Other Intangibles</b>	\$ <b>1,243</b>	\$ 1,355	\$ <b>10,328</b>	\$ 10,726	\$ <b>437</b>	\$ 497	\$ <b>12,008</b>	\$ 12,578

The amortization of intangibles was \$0.9 million and \$0.2 million for the first quarter of Fiscal 2012 and 2011, respectively. The amortization of intangibles will be \$3.4 million, \$3.2 million, \$2.8 million, \$2.4 million and \$1.6 million for Fiscal 2012, 2013, 2014, 2015 and 2016, respectively.

**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 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 Condensed Consolidated Statements of Operations.

The Company recorded a pretax charge to earnings of \$1.2 million in the first quarter of Fiscal 2012, including \$0.7 million for retail store asset impairments, \$0.4 million for network intrusion costs and \$0.1 million for other legal matters. The Company recorded a pretax charge to earnings of \$2.4 million in the first quarter of Fiscal 2011, primarily for retail store asset impairments.

**Genesco Inc.  
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Notes to Condensed Consolidated Financial Statements

**Note 3**

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

Discontinued Operations

**Accrued Provision for Discontinued Operations**

<b>In thousands</b>	<b>Facility Shutdown Costs</b>
Balance January 30, 2010	\$ 15,414
Additional provision Fiscal 2011	2,203
Charges and adjustments, net	(2,582)
Balance January 29, 2011	15,035
Additional provision Fiscal 2012	300
Charges and adjustments, net	(613)
Balance April 30, 2011*	14,722
<b>Current provision for discontinued operations</b>	<b>10,128</b>
<b>Total Noncurrent Provision for Discontinued Operations</b>	<b>\$ 4,594</b>

\* Includes a \$15.2 million environmental provision, including \$10.6 million in current provision for discontinued operations.

**Note 4**

**Inventories**

<b>In thousands</b>	<b>April 30, 2011</b>	<b>January 29, 2011</b>
Raw materials	\$ 15,376	\$ 11,952
Goods in process	631	338
Wholesale finished goods	35,907	47,866
Retail merchandise	319,888	299,580
<b>Total Inventories</b>	<b>\$ 371,802</b>	<b>\$ 359,736</b>

**Genesco Inc.  
and Subsidiaries**

Notes to Condensed Consolidated Financial Statements

**Note 5**

**Fair Value**

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

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

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

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

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

The following table presents the Company's assets and liabilities measured at fair value on a nonrecurring basis as of April 30, 2011 aggregated by the level in the fair value hierarchy within which those measurements fall (in thousands):

	Long-Lived Assets			Total	
	Held and Used	Level 1	Level 2	Level 3	Losses
Measured as of April 30, 2011	\$ 548	\$	\$	\$ 548	\$ 747

In accordance with the Property, Plant and Equipment Topic of the Codification, the Company recorded \$0.7 million of impairment charges as a result of the fair value measurement of its long-lived assets held and used on a nonrecurring basis during the three months ended April 30, 2011. These charges are reflected in restructuring and other, net on the Condensed Consolidated Statements of Operations.

**Genesco Inc.  
and Subsidiaries**

Notes to Condensed Consolidated Financial Statements

**Note 5**

**Fair Value, Continued**

The Company used a discounted cash flow model to estimate the fair value of these long-lived assets at April 30, 2011. Discount rate and growth rate assumptions are derived from current economic conditions, expectations of management and projected trends of current operating results. As a result, the Company has determined that the majority of the inputs used to value its long-lived assets held and used are unobservable inputs that fall within Level 3 of the fair value hierarchy.

**Note 6**

**Defined Benefit Pension Plans and Other Benefit Plans**

*Components of Net Periodic Benefit Cost*

	Pension Benefits		Other Benefits	
	Three Months Ended		Three Months Ended	
	April	May 1,	April	May 1,
<b>In thousands</b>	<b>30,</b>	<b>2010</b>	<b>30,</b>	<b>2010</b>
	<b>2011</b>		<b>2011</b>	
Service cost	\$ 63	\$ 63	\$ 42	\$ 38
Interest cost	1,398	1,484	43	40
Expected return on plan assets	(1,952)	(2,025)	-0-	-0-
Amortization:				
Prior service cost	1	1	-0-	-0-
Losses	1,241	1,130	20	14
Net amortization	1,242	1,131	20	14
<b>Net Periodic Benefit Cost</b>	<b>\$ 751</b>	<b>\$ 653</b>	<b>\$ 105</b>	<b>\$ 92</b>

While there was no cash requirement for the Plan in 2011, the Company made a \$0.3 million contribution to the Plan in February 2011.

**Genesco Inc.  
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Notes to Condensed Consolidated Financial Statements

**Note 7**

**Earnings Per Share**

(In thousands, except per share amounts)	For the Three Months Ended April 30, 2011			For the Three Months Ended May 1, 2010		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Earnings from continuing operations	\$ 14,975			\$ 8,563		
Less: Preferred stock dividends	(49)			(49)		
<b>Basic EPS from continuing operations</b>						
Income available to common shareholders	14,926	22,940	\$ .65	8,514	23,462	\$ .36
<b>Effect of Dilutive Securities from continuing operations</b>						
Options		549			386	
Convertible preferred stock <sup>(1)</sup>	14	26		-0-	-0-	
Employees' preferred stock <sup>(2)</sup>		49			50	
<b>Diluted EPS</b>						
Income available to common shareholders plus assumed conversions	\$ 14,940	23,564	\$ .63	\$ 8,514	23,898	\$ .36

(1) The amount of the dividend on the convertible preferred stock per common share obtainable on conversion of the convertible preferred stock was less than basic earnings per share for Series 3 preferred stock for the three months ended April 30, 2011. Therefore, conversion of Series 3 preferred shares was included in diluted earnings per share for the three months ended April 30, 2011. 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 Series 1 and 4 preferred stock for the three months ended April 30, 2011 and for Series 1, 3 and 4 preferred stock for the three months ended May 1, 2010. Therefore, conversion of the convertible preferred stock was not reflected in diluted earnings per share for the three months ended April 30, 2011 or May 1, 2010, because it would have been antidilutive. The shares convertible to common stock for Series 1, 3 and 4 preferred stock would have been 27,913, 25,606 and 5,423, respectively, as of April 30, 2011.

(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 for the first quarter ended April 30, 2011 and May 1, 2010.

The Company did not repurchase any shares during the first quarter ended April 30, 2011. The Company repurchased 1,700 shares during the first quarter ended May 1, 2010.



**Genesco Inc.  
and Subsidiaries**

Notes to Condensed Consolidated Financial Statements

**Note 8**

**Legal Proceedings**

***Environmental Matters***

***New York State Environmental Matters***

In August 1997, the New York State Department of Environmental Conservation ( NYSDEC ) and the Company entered into a consent order whereby the Company assumed responsibility for conducting a remedial investigation and feasibility study ( 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. 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 of approximately \$10.7 million.

In July 2009, the Company agreed to a Consent Order with the EPA requiring the Company to perform certain remediation actions, operations, maintenance and monitoring at the site. In September 2009, a Consent Judgment embodying the Consent Order was filed in the U.S. District Court for the Eastern District of New York.



**Genesco Inc.  
and Subsidiaries**

Notes to Condensed Consolidated Financial Statements

**Note 8**

**Legal Proceedings, Continued**

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 the Resource Conservation and Recovery Act ( RCRA ), the Safe Drinking Water Act, and the Comprehensive Environmental Response, Compensation and Liability Act ( CERCLA ) as well as a number of state law theories in the U.S. District Court for the Eastern District of New York, seeking an injunction requiring the defendants to remediate contamination from the site and to establish their liability for future costs that may be incurred in connection with it, 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. On January 27, 2009, the Court granted the motion to dismiss all counts of the plaintiff's complaint except for the CERCLA claim and a state law claim for indemnity for costs incurred after November 27, 2000. On September 23, 2009, on a motion for reconsideration by the Village, the Court reinstated the claims for injunctive relief under RCRA and for equitable relief under certain of the state law theories. The Company intends to continue to defend the action.

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 the EPA's substantive allegations are accurate. The Company, together with other tannery PRPs, 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.

**Genesco Inc.  
and Subsidiaries**

Notes to Condensed Consolidated Financial Statements

**Note 8**

**Legal Proceedings, Continued**

*Whitehall Environmental Matters*

The Company has performed sampling and analysis of soil, sediments, surface water, groundwater and waste management areas at the Company's former Volunteer Leather Company facility in Whitehall, Michigan.

In October 2010, the Company and the Michigan Department of Natural Resources and Environment entered into a Consent Decree providing for implementation of a remedial Work Plan for the facility site designed to bring the site into compliance with applicable regulatory standards. The Company estimates the cost of implementing the Work Plan at approximately \$5.3 million. There can be no assurance that remediation costs will not exceed the estimate.

*Accrual for Environmental Contingencies*

Related to all outstanding environmental contingencies, the Company had accrued \$15.2 million as of April 30, 2011, \$15.5 million as of January 29, 2011 and \$16.0 million as of May 1, 2010. 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. The Company has made pretax accruals for certain of these contingencies, including approximately \$0.4 million reflected in each of the first quarters of Fiscal 2012 and 2011. These charges are included in provision for discontinued operations, net in the Condensed Consolidated Statements of Operations.

**California Actions**

On March 3, 2011, there was filed in the U.S. District Court for the Southern District of California a putative class action styled *Fraser v. Genesco Inc.* On March 4, 2011, there was filed in the Superior Court of California for the County of San Francisco a putative class action styled *Pabst v. Genesco Inc. et al.* Both complaints allege that the Company's retail stores in California violated the California Song-Beverly Credit Card Act of 1971 and other California law through customer information collection practices, and both seek civil penalties, damages, restitution, injunctive and declaratory relief, attorneys' fees, and other relief. The Company disputes the material allegations in both complaints and intends to defend the actions vigorously.

**Genesco Inc.  
and Subsidiaries**

Notes to Condensed Consolidated Financial Statements

**Note 8**

**Legal Proceedings, Continued**

**Other Matters**

On December 10, 2010, the Company announced that it had suffered a criminal intrusion into the portion of its computer network that processes payments for transactions in certain of its retail stores. Visa, Inc. imposed penalty assessments totaling \$10,000 on the Company's credit and debit card processors based upon alleged violations of certain Visa International Operating Regulations, and has indicated that it may assert additional claims in connection with the intrusion. The Company disputes the basis of such claims. There can be no assurance that additional claims related to the intrusion will not be asserted in the future, or that such claims will not be material.

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

**Note 9**

**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; Lids Sports Group, comprised primarily of the Lids, Hat World and Hat Shack retail headwear stores, the Lids Locker Room and Lids Clubhouse fan shops (operated under various trade names), the Lids Team Sports business and certain 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 Lids Sports Group sell primarily branded products from other companies while Johnston & Murphy Group and Licensed Brands sell primarily the Company's owned and licensed brands.

**Genesco Inc.  
and Subsidiaries**

Notes to Condensed Consolidated Financial Statements

**Note 9**

**Business Segment Information, Continued**

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

<b>Three Months Ended</b>	<b>Underground</b>		<b>Johnston &amp; Lids</b>		<b>Johnston &amp; Murphy</b>		<b>Licensed Brands &amp; Corporate &amp; Other</b>		<b>Consolidated</b>
<b>April 30, 2011</b>	<b>Journeys</b>	<b>Station</b>	<b>Sports</b>	<b>Murphy</b>	<b>Licensed</b>	<b>Corporate</b>			
<b>In thousands</b>	<b>Group</b>	<b>Group</b>	<b>Group</b>	<b>Group</b>	<b>Brands</b>	<b>&amp; Other</b>			
Sales	\$ 208,714	\$ 25,803	\$ 169,702	\$ 48,051	\$ 29,016	\$ 308			\$ 481,594
Intercompany sales	-0-	-0-	(26)	-0-	(66)	-0-			(92)
<b>Net sales to external customers</b>	<b>\$ 208,714</b>	<b>\$ 25,803</b>	<b>\$ 169,676</b>	<b>\$ 48,051</b>	<b>\$ 28,950</b>	<b>\$ 308</b>			<b>\$ 481,502</b>
Segment operating income (loss)	\$ 16,311	\$ 1,147	\$ 14,004	\$ 2,895	\$ 3,304	\$ (10,892)			\$ 26,769
Restructuring and other*	-0-	-0-	-0-	-0-	-0-	(1,244)			(1,244)
<b>Earnings (loss) from operations</b>	<b>16,311</b>	<b>1,147</b>	<b>14,004</b>	<b>2,895</b>	<b>3,304</b>	<b>(12,136)</b>			<b>25,525</b>
Interest expense	-0-	-0-	-0-	-0-	-0-	(516)			(516)
Interest income	-0-	-0-	-0-	-0-	-0-	2			2
<b>Earnings (loss) from continuing operations before income taxes</b>	<b>\$ 16,311</b>	<b>\$ 1,147</b>	<b>\$ 14,004</b>	<b>\$ 2,895</b>	<b>\$ 3,304</b>	<b>\$ (12,650)</b>			<b>\$ 25,011</b>
Total assets**	\$ 242,605	\$ 28,001	\$ 445,176	\$ 72,659	\$ 34,599	\$ 148,704			\$ 971,744
Depreciation and amortization	4,788	494	5,448	897	66	509			12,202
Capital expenditures	2,065	8	6,414	407	204	499			9,597

\* Restructuring and other includes a \$0.7 million charge for asset impairments, of which \$0.4 million is in the Journeys Group, \$0.2 million in the Johnston & Murphy Group and \$0.1 million in the Lids Sports Group.

\*\* Total assets for the Lids Sports Group include \$152.5 million of goodwill. Total assets for Licensed Brands include \$0.8 million of goodwill.

**Genesco Inc.  
and Subsidiaries**

Notes to Condensed Consolidated Financial Statements

**Note 9**

**Business Segment Information, Continued**

<b>Three Months Ended</b>	<b>Underground</b>		<b>Johnston &amp; Lids</b>		<b>Johnston &amp; Murphy</b>		<b>Licensed Brands Corporate &amp; Other</b>		<b>Consolidated</b>
<b>May 1, 2010</b>	<b>Journeys</b>	<b>Station</b>	<b>Sports</b>	<b>Murphy</b>	<b>Licensed</b>	<b>Corporate</b>			<b>Consolidated</b>
<b>In thousands</b>	<b>Group</b>	<b>Group</b>	<b>Group</b>	<b>Group</b>	<b>Brands</b>	<b>&amp; Other</b>			<b>Consolidated</b>
Sales	\$ 181,891	\$ 26,073	\$ 119,988	\$ 44,537	\$ 28,190	\$ 222			\$ 400,901
Intercompany sales	-0-	-0-	-0-	-0-	(48)	-0-			(48)
<b>Net sales to external customers</b>	<b>\$ 181,891</b>	<b>\$ 26,073</b>	<b>\$ 119,988</b>	<b>\$ 44,537</b>	<b>\$ 28,142</b>	<b>\$ 222</b>			<b>\$ 400,853</b>
Segment operating income (loss)	\$ 8,425	\$ 649	\$ 9,414	\$ 2,059	\$ 4,532	\$ (8,085)			\$ 16,994
Restructuring and other*	-0-	-0-	-0-	-0-	-0-	(2,443)			(2,443)
<b>Earnings (loss) from operations</b>	<b>8,425</b>	<b>649</b>	<b>9,414</b>	<b>2,059</b>	<b>4,532</b>	<b>(10,528)</b>			<b>14,551</b>
Interest expense	-0-	-0-	-0-	-0-	-0-	(236)			(236)
Interest income	-0-	-0-	-0-	-0-	-0-	1			1
<b>Earnings (loss) from continuing operations before income taxes</b>	<b>\$ 8,425</b>	<b>\$ 649</b>	<b>\$ 9,414</b>	<b>\$ 2,059</b>	<b>\$ 4,532</b>	<b>\$ (10,763)</b>			<b>\$ 14,316</b>
Total assets**	\$ 244,978	\$ 25,423	\$ 342,497	\$ 62,439	\$ 26,872	\$ 185,891			\$ 888,100
Depreciation and amortization	5,496	589	4,231	957	42	578			11,893
Capital expenditures	1,674	4	4,341	375	12	134			6,540

\* Restructuring and other includes a \$2.4 million charge for asset impairments, of which \$1.5 million is in the Journeys Group, \$0.3 million in the Underground Station Group, \$0.3 million in the Johnston & Murphy Group and \$0.3 million in the Lids Sports Group.

\*\* Total assets for the Lids Sports Group include \$119.0 million of goodwill.

**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 Fiscal 2012.

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:

The costs of responding to and liability in connection with the network intrusion described under "Significant Developments-Network Intrusion" including any claims or litigation resulting therefrom.

The effects of a disruption of the NFL season on Lids Sports and the Company's results.

Adjustments to estimates reflected in forward-looking statements, including the timing and amount of non-cash asset impairments.

Weakness in the consumer economy.

Competition in the Company's markets.

Inability of customers to obtain credit.

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

Changes in buying patterns by significant wholesale customers.

Bankruptcies or deterioration in the financial condition of significant 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, foreign exchange rates, foreign labor and material costs and other factors affecting the cost of products.

The Company's ability to continue to complete acquisitions, expand its business and diversify its product base and to integrate the acquisitions effectively and to realize the expected benefits from them.

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

The Company's ability to build, open, staff and support additional retail stores and to renew leases in existing stores and maintain reductions in occupancy costs achieved in recent lease negotiations, and to conduct required remodeling or refurbishment on schedule and at acceptable expense levels.

Deterioration in the performance of individual businesses or of the Company's market value relative to its book value, resulting in impairments of fixed assets or intangible assets or other adverse financial consequences.

Unexpected changes to the market for the Company's shares.

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 8 to the Condensed Consolidated Financial Statements.

## Overview

### *Description of Business*

The Company's business includes the design and sourcing, marketing and distribution of footwear and accessories through retail stores, including Journeys®, Journeys Kidz®, Shi by Journeys®, Johnston & Murphy® and Underground Station® stores, in the U.S., Puerto Rico and Canada, and e-commerce websites, and at wholesale, primarily under the Company's Johnston & Murphy brand and the Dockers® brand and other brands that the Company licenses for men's footwear. The Company's footwear brands are distributed to more than 1,100 retail accounts in the United States, including a number of leading department, discount, and specialty stores. The Company's business also includes Lids Sports, which operates headwear and accessory stores under the Lids® name and other names in the U.S., Puerto Rico and Canada, the Lids Locker Room business, consisting of sports-oriented fan shops featuring a broad array of licensed merchandise such as apparel, hats and accessories, sports decor and novelty products, the Lids Clubhouse business consisting of single team fan shops, an e-commerce business and an athletic team dealer business operating as Lids Team Sports. Including both the footwear businesses and the Lids Sports business, at April 30, 2011, the Company operated 2,291 retail stores in the U.S., Puerto Rico and Canada.

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; Lids Sports Group, comprised primarily of the Lids, Hat World and Hat Shack retail headwear stores, the Lids Locker room and Lids Clubhouse fan shops (operated under various trade names), the Lids Team Sports business and certain 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 1,950 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 sell footwear and accessories to fashion-conscious women in their early 20's to mid 30's. These stores average approximately 2,150 square feet. The Journeys Group stores are primarily in malls and factory outlet centers throughout the United States, Puerto Rico and Canada. Journeys also sells footwear and accessories through a direct-to-consumer catalog and e-commerce operations.

The Underground Station retail footwear stores sell footwear and accessories primarily for men and women in the 20 to 35 age group in the urban market. The Underground Station Group stores average approximately 1,800 square feet. Underground Station also sells footwear and accessories through an e-commerce operation. The Company plans to close certain underperforming Underground Station stores as the opportunity presents itself, and attempt to secure rent relief on other locations while it assesses the future prospects for the chain.



The Lids Sports Group includes stores and kiosks, primarily under the Lids banner, that sell licensed and branded headwear to men and women primarily in the early-teens to mid-20 s age group. The Lids store locations average approximately 825 square feet and are primarily in malls, airports, street level stores and factory outlet centers throughout the United States, Puerto Rico and Canada. The Lids Locker Room and Lids Clubhouse stores sell licensed sports headwear, apparel and accessories to sports fans of all ages and average approximately 2,725 square feet and are in malls and other locations throughout the United States. The Lids Sports Group also sells headwear and accessories through e-commerce operations. In addition, The Lids Sports Group operates Lids Team Sports, an athletic team dealer business.

Johnston & Murphy retail shops sell a broad range of men s footwear, luggage and accessories. Johnston & Murphy introduced a line of women s footwear and accessories in select Johnston & Murphy retail shops in the fall of 2008. Johnston & Murphy shops average approximately 1,500 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 2,325 square feet, located in factory outlet malls, and through a direct-to-consumer catalog and e-commerce operation.

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 and in certain other Latin American countries. The Dockers license agreement was renewed May 15, 2009. The Dockers license agreement, as amended, expires on December 31, 2012. 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 long-term strategy for many years has been to seek 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. The pace of the Company s organic growth may be limited by saturation of its markets and by economic conditions. Beginning in Fiscal 2010, the Company slowed the pace of new store openings and focused on inventory management and cash flow in response to economic conditions. The Company has also focused on opportunities provided by the economic climate to negotiate occupancy cost reductions, especially where lease provisions triggered by sales shortfalls or declining occupancy of malls would permit the Company to terminate leases.

To supplement its organic growth potential, the Company has made acquisitions and expects to consider acquisition opportunities, either to augment its existing businesses or to enter new businesses that it considers compatible with its existing businesses, core expertise and strategic profile. Acquisitions involve a number of risks, including, among others, inaccurate valuation of the acquired business, the assumption of undisclosed liabilities, the failure to integrate the acquired business appropriately, and distraction of management from existing businesses. The Company seeks to mitigate these risks by applying appropriate financial metrics in its valuation analysis and developing and executing plans for due diligence and integration that are appropriate to each acquisition.

More generally, the Company attempts to develop strategies to mitigate the risks it views as material, including those discussed under the caption *Forward Looking Statements*, above and 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 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 recent recession and the current relatively high level of unemployment, 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 and importance in the industry segments in which it competes are important to its ability to mitigate risks associated with changing customer preferences and other reductions in consumer demand.

#### *Summary of Results of Operations*

The Company's net sales increased 20.1% during the first quarter of Fiscal 2012 compared to Fiscal 2011. The increase was driven primarily by a 41% increase in Lids Sports Group sales which was aided by \$24.4 million of sales from businesses acquired over the past twelve months, a 15% increase in Journeys Group sales, an 8% increase in Johnston & Murphy Group sales and a 3% increase in Licensed Brands sales, offset slightly by a 1% decrease in Underground Station Group sales. Gross margin decreased as a percentage of net sales during the first quarter of Fiscal 2012, due to margin decreases in all the Company's business segments. Selling and administrative expenses decreased as a percentage of net sales during the first quarter of Fiscal 2012, primarily due to expense decreases as a percentage of net sales in all of the Company's business segments except Licensed Brands. Earnings from operations increased as a percentage of net sales during the first quarter of Fiscal 2012, primarily due to increased earnings from operations in all the Company's business segments except the Licensed Brands segment.

#### **Significant Developments**

##### *Network Intrusion*

On December 10, 2010, the Company announced that it had suffered a criminal intrusion into the portion of its computer network that processes payments for transactions in certain of its retail stores. Visa, Inc. imposed penalty assessments totaling \$10,000 on the Company's credit and debit card processors based upon alleged violations of certain Visa International Operating Regulations, and has indicated that it may assert additional claims in connection with the intrusion. The Company disputes the basis of such claims. There can be no assurance that additional claims related to the intrusion will not be asserted in the future, or that such claims will not be material.

##### *Restructuring and Other Charges*

The Company recorded a pretax charge to earnings of \$1.2 million in the first quarter of Fiscal 2012. The charge reflected in restructuring and other, net included \$0.7 million for retail store asset impairments, \$0.4 million for network intrusion costs and \$0.1 million for other legal matters. The Company recorded a pretax charge to earnings of \$2.4 million in the first quarter of Fiscal 2011, primarily for retail store asset impairments.

### 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. Unless otherwise specified, e-commerce and catalog sales are excluded from comparable store sales calculations.

### Results of Operations First Quarter Fiscal 2012 Compared to Fiscal 2011

The Company's net sales in the first quarter ended April 30, 2011 increased 20.1% to \$481.5 million from \$400.9 million in the first quarter ended May 1, 2010. Gross margin increased 19.0% to \$247.5 million in the first quarter this year from \$208.1 million in the same period last year but decreased as a percentage of net sales from 51.9% to 51.4%. Selling and administrative expenses in the first quarter this year increased 15.5% from the first quarter last year but decreased as a percentage of net sales from 47.7% to 45.9%. 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 from continuing operations before income taxes (pretax earnings) for the first quarter ended April 30, 2011 were \$25.0 million compared to \$14.3 million for the first quarter ended May 1, 2010. Pretax earnings for the first quarter ended April 30, 2011 included restructuring and other charges of \$1.2 million primarily for retail store asset impairments, network intrusion costs and other legal matters. Pretax earnings for the first quarter ended May 1, 2010 included restructuring and other charges of \$2.4 million, primarily for retail store asset impairments.

Net earnings for the first quarter ended April 30, 2011 were \$14.8 million (\$0.63 diluted earnings per share) compared to \$8.6 million (\$0.36 diluted earnings per share) for the first quarter ended May 1, 2010. The Company recorded an effective income tax rate of 40.1% in the first quarter this year compared to 40.2% in the same period last year.

#### *Journeys Group*

	<b>Three Months Ended</b>		
	<b>April 30, 2011</b>	May 1, 2010	%
	(dollars in thousands)		
Net sales	<b>\$ 208,714</b>	\$ 181,891	14.7%
Earnings from operations	<b>\$ 16,311</b>	\$ 8,425	93.6%
Operating margin	<b>7.8%</b>	4.6%	

Net sales from Journeys Group increased 14.7% to \$208.7 million for the first quarter ended April 30, 2011 compared to \$181.9 million for the same period last year. The increase reflects primarily a 15% increase in comparable store sales. The comparable store sales increase reflected a 14% increase in footwear unit comparable sales and a 1% increase in average price per pair of shoes, reflecting changes in product mix. Unit sales increased 15% during the same period. Journeys

Group operated 1,011 stores at the end of the first quarter of Fiscal 2012, including 149 Journeys Kidz stores, 54 Shi by Journeys stores and three Journeys stores in Canada, compared to 1,023 stores at the end of the first quarter last year, including 150 Journeys Kidz stores, 56 Shi by Journeys stores and one Journeys store in Canada.

Journeys Group earnings from operations for the first quarter ended April 30, 2011 increased 93.6% to \$16.3 million compared to \$8.4 million for the first quarter ended May 1, 2010. The increase was due to increased net sales and to decreased expenses as a percentage of net sales, reflecting leveraging of occupancy costs and depreciation.

*Underground Station Group*

	<b>Three Months Ended</b>		
	<b>April</b>	May 1,	%
	<b>30,</b>	2010	Change
	<b>2011</b>		
	(dollars in thousands)		
Net sales	<b>\$ 25,803</b>	\$ 26,073	(1.0)%
Earnings from operations	<b>\$ 1,147</b>	\$ 649	76.7%
Operating margin	<b>4.4%</b>	2.5%	

Net sales from the Underground Station Group decreased 1.0% to \$25.8 million for the first quarter ended April 30, 2011 from \$26.1 million for the same period last year. The decrease reflects an 11% decrease in average Underground Station 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), offset by a 6% increase in comparable store sales.

Comparable footwear unit sales increased 6% while the average price per pair of shoes was flat. Unit sales decreased 3% during the same period. Underground Station Group operated 145 stores at the end of the first quarter of Fiscal 2012 compared to 163 stores at the end of the first quarter last year.

Underground Station Group earnings from operations for the first quarter ended April 30, 2011 increased 76.7% to \$1.1 million compared to \$0.6 million in the first quarter ended May 1, 2010. The improvement was primarily due to decreased expenses as a percentage of net sales due to decreased occupancy costs, depreciation and compensation.

*Lids Sports Group*

	<b>Three Months Ended</b>		
	<b>April 30,</b>	May 1,	%
	<b>2011</b>	2010	Change
	(dollars in thousands)		
Net sales	<b>\$ 169,676</b>	\$ 119,988	41.4%
Earnings from operations	<b>\$ 14,004</b>	\$ 9,414	48.8%
Operating margin	<b>8.3%</b>	7.8%	

Net sales from Lids Sports Group increased 41.4% to \$169.7 million for the first quarter ended April 30, 2011 compared to \$120.0 million for the same period last year, reflecting primarily a 16% increase in comparable store sales and \$24.4 million of sales from businesses acquired in the last twelve months. The comparable store sales increase reflected a 14% increase in comparable store units sold, primarily from strength in Major League Baseball products especially fashion-oriented

Major League Baseball products, NBA products, branded action headwear, NCAA products and NHL products, and a 3% increase in average price per hat. Lids Sports Group operated 980 stores at the end of the first quarter of Fiscal 2012, including 74 stores in Canada and 102 Lids Locker Room and Clubhouse stores, compared to 922 stores at the end of the first quarter last year, including 62 stores in Canada and 37 Lids Locker Room and Clubhouse stores. Lids Sports Group earnings from operations for the first quarter ended April 30, 2011 increased 48.8% to \$14.0 million compared to \$9.4 million for the first quarter ended May 1, 2010. The increase was due to increased headwear sales and decreased expenses as a percentage of net sales, primarily reflecting leverage from positive comparable store sales as well as a change in sales mix in the Lids Sports Group. Wholesale sales accounted for 15% of the Group's sales in the first quarter this year compared to 6% for the same period last year. Wholesale sales normally involve lower expenses compared to retail sales.

*Johnston & Murphy Group*

	<b>Three Months Ended</b>		
	<b>April 30, 2011</b>	May 1, 2010	%
	(dollars in thousands)		
Net sales	<b>\$ 48,051</b>	\$ 44,537	7.9%
Earnings from operations	<b>\$ 2,895</b>	\$ 2,059	40.6%
Operating margin	<b>6.0%</b>	4.6%	

Johnston & Murphy Group net sales increased 7.9% to \$48.1 million for the first quarter ended April 30, 2011 from \$44.5 million for the first quarter ended May 1, 2010, reflecting primarily a 10% increase in comparable store sales and a 6% increase in Johnston & Murphy wholesale sales offset by a 2% decrease in average stores operated for Johnston & Murphy retail operations. Unit sales for the Johnston & Murphy wholesale business increased 5% in the first quarter of Fiscal 2012 and the average price per pair of shoes increased 1% for the same period. Retail operations accounted for 72.1% of Johnston & Murphy Group segment sales in the first quarter this year, up from 71.6% in the first quarter last year. The comparable store sales increase in the first quarter ended April 30, 2011 reflects a 5% increase in footwear unit comparable sales and a 1% increase in average price per pair of shoes for Johnston & Murphy retail operations. The store count for Johnston & Murphy retail operations at the end of the first quarter of Fiscal 2012 included 155 Johnston & Murphy shops and factory stores compared to 159 Johnston & Murphy shops and factory stores at the end of the first quarter of Fiscal 2011.

Johnston & Murphy Group earnings from operations for the first quarter ended April 30, 2011 increased 40.6% to \$2.9 million compared to \$2.1 million for the same period last year, primarily due to increased net sales and decreased expenses as a percentage of net sales. Expenses reflected positive leverage from the increase in comparable store sales and increased wholesale sales.

*Licensed Brands*

	<b>Three Months Ended</b>		
	<b>April 30, 2011</b>	May 1, 2010	%
	(dollars in thousands)		
Net sales	<b>\$ 28,950</b>	\$ 28,142	2.9%
Earnings from operations	<b>\$ 3,304</b>	\$ 4,532	(27.1)%
Operating margin	<b>11.4%</b>	16.1%	

Licensed Brands net sales increased 2.9% to \$29.0 million for the first quarter ended April 30, 2011, from \$28.1 million for the first quarter ended May 1, 2010. The sales increase reflects \$3.5 million of increased sales from the Chaps line of footwear and a small acquisition made in the third quarter of Fiscal 2011. Unit sales for Dockers Footwear decreased 5% for the first quarter this year and the average price per pair of Dockers shoes decreased 6% compared to the same period last year.

Licensed Brands earnings from operations for the first quarter ended April 30, 2011 decreased 27.1% to \$3.3 million compared to \$4.5 million for the same period last year. The increase in net sales was offset by increased expenses, both in dollars and as a percentage of net sales, reflecting increased advertising expense and freight costs.

*Corporate, Interest Expenses and Other Charges*

Corporate and other expense for the first quarter ended April 30, 2011 was \$12.1 million compared to \$10.5 million for the first quarter ended May 1, 2010. Corporate expense in the first quarter this year included \$1.2 million in restructuring and other charges, primarily for retail store asset impairments, network intrusion costs and other legal matters. Last year's expense in the first quarter included \$2.4 million in restructuring and other charges, primarily for retail store asset impairments. Excluding the charges listed above, corporate and other expense increased primarily due to increased bonus accruals as a result of increased earnings in the first quarter this year compared to the first quarter last year.

Interest expense increased from \$0.2 million in the first quarter ended May 1, 2010 to \$0.5 million for the first quarter ended April 30, 2011, due to increased unused line fees on the new \$300.0 million Credit Facility entered into in the fourth quarter of Fiscal 2011 compared to lower fees for the \$200.0 million Credit Facility in place in the first quarter last year.

**Liquidity and Capital Resources**

The following table sets forth certain financial data at the dates indicated.

	<b>April 30, 2011</b>	January 29, 2011	May 1, 2010
		(dollars in millions)	
Cash and cash equivalents	<b>\$ 56.8</b>	\$ 55.9	\$ 105.4
Working capital	<b>\$ 299.5</b>	\$ 278.7	\$ 293.6
Long-term debt	<b>\$ -0-</b>	\$ -0-	\$ -0-

*Working Capital*

The Company's business is somewhat seasonal, with the Company's investment in inventory and accounts receivable normally reaching peaks in the spring and fall of each year. Historically, cash flows from operations have been generated principally in the fourth quarter of each fiscal year.

Cash provided by operating activities was \$12.0 million in the first three months of Fiscal 2012 compared to \$35.9 million in the first three months of Fiscal 2011. The \$23.9 million decrease in cash flow from operating activities from last year reflects decreases in cash flow from changes in other accrued liabilities and inventory of \$24.0 million and \$7.5 million, respectively, offset by increased earnings. The \$24.0 million decrease in cash flow from other accrued liabilities was due to increased bonus payments and income tax payments in the first quarter this year compared to the first quarter last year. The \$7.5 million decrease in cash flow from inventory reflected increased purchases in the Journeys Group, Lids Sports Group and Johnston & Murphy retail to support sales offset by decreased inventory in the Licensed Brands wholesale businesses.

The \$12.1 million increase in inventories at April 30, 2011 from January 29, 2011 levels reflected increased purchases in the Journeys Group, Lids Sports Group and Johnston & Murphy retail, offset by decreased inventory in the footwear wholesale businesses.

Accounts receivable at April 30, 2011 decreased \$0.4 million compared to January 29, 2011.

*Sources of Liquidity*

The Company has three principal sources of liquidity: cash from operations, cash and cash equivalents on hand and the Credit Facility discussed below. The Company believes that cash and cash equivalents on hand, cash from operations and availability under its Credit Facility will be sufficient to cover its working capital and capital expenditures for the foreseeable future.

The Company entered into the Second Amended and Restated Credit Agreement (the "Credit Facility") on January 21, 2011, in the aggregate principal amount of \$300.0 million, with a \$40.0 million swingline loan sublimit and a \$70.0 million sublimit for the issuance of standby letters of credit and a Canadian sub-facility of up to \$8.0 million, and has a five-year term, expiring in January 2016. Any swingline loans and any letters of credit and borrowings under the Canadian facility will reduce the availability under the Credit Facility on a dollar-for-dollar basis. In addition, the Company has an option to increase the availability under the Credit Facility by up to \$150.0 million subject to, among other things, the receipt of commitments for the increased amount. The aggregate amount of the loans made and letters of credit issued under the Credit Facility shall at no time exceed the lesser of the facility amount (\$300.0 million or, if increased at the Company's option, up to \$450.0 million) or the "Borrowing Base", which generally is based on 90% of eligible inventory plus 85% of eligible wholesale receivables (50% of eligible wholesale receivables of the Lids Team Sports business) plus 90% of eligible credit card and debit card receivables less applicable reserves.

There were no revolving credit borrowings during the three months ended April 30, 2011 or May 1, 2010, as cash on hand and cash generated from operations funded seasonal working capital requirements and capital expenditures for the first quarter of each year.

There were \$11.0 million of letters of credit outstanding and no revolver borrowings outstanding under the Credit Facility at April 30, 2011. Net availability under the facility was \$247.1 million. The Company is not required to comply with any financial covenants under the facility unless

Excess Availability (as defined in the Second Amended and Restated Credit Agreement) is less than the greater of \$27.5 million or 12.5% of the Loan Cap. If and during such time as Excess Availability is less than the greater of \$27.5 million or 12.5% of the Loan Cap, the Credit Facility requires the Company to meet a minimum fixed charge coverage ratio (EBITDA less capital expenditures less cash taxes divided by cash interest expense and scheduled payments of principal indebtedness) of (a) an amount equal to consolidated EBITDA less capital expenditures and taxes paid in cash, in each case for such period, to (b) fixed charges for such period, of not less than 1.0:1.0. Excess Availability was \$247.1 million at April 30, 2011. Because Excess Availability exceeded \$27.5 million or 12.5% of the Loan Cap, the Company was not required to comply with this financial covenant at April 30, 2011.

The Company's Credit Facility prohibits the payment of dividends and other restricted payments unless as of the date of the making of any Restricted Payment or consummation of any Acquisition, (a) no Default or Event of Default exists or would arise after giving effect to such Restricted Payment or Acquisition, and (b) either (i) the Borrowers have pro forma projected Excess Availability for the following six month period equal to or greater than 50% of the Loan Cap, after giving pro forma effect to such Restricted Payment or Acquisition, or (ii) (A) the Borrowers have pro forma projected Excess Availability for the following six month period of less than 50% of the Loan Cap but equal to or greater than 20% of the Loan Cap, after giving pro forma effect to the Restricted Payment or Acquisition, and (B) the Fixed Charge Coverage Ratio, on a pro-forma basis for the twelve months preceding such Restricted Payment or Acquisition, will be equal to or greater than 1.0:1.0 and (c) after giving effect to such Restricted Payment or Acquisition, the Borrowers are Solvent. The Company's management does not expect availability under the Credit Facility to fall below the requirements listed above during Fiscal 2012.

The aggregate of annual dividend requirements on the Company's Subordinated Serial Preferred Stock, \$2.30 Series 1, \$4.75 Series 3 and \$4.75 Series 4, and on its \$1.50 Subordinated Cumulative Preferred Stock is \$197,000.

The Company's contractual obligations at April 30, 2011 were flat compared to contractual obligations at January 29, 2011.

#### *Capital Expenditures*

Total capital expenditures in Fiscal 2012 are expected to be approximately \$55.4 million. These include retail capital expenditures of approximately \$44.3 million to open approximately 20 Journeys stores including seven in Canada, seven Journeys Kidz stores, 11 Johnston & Murphy shops and factory stores and 45 Lid Sports Group stores including ten stores in Canada and 20 Lids Locker Room stores, with three Lids Locker Room stores in Canada, and to complete approximately 98 major store renovations. The Company will continue to open stores at a slower pace in 2012. The planned amount of capital expenditures in Fiscal 2012 for wholesale operations and other purposes is approximately \$11.1 million, including approximately \$4.8 million for new systems to improve customer service and support the Company's growth.

#### *Future Capital Needs*

The Company expects that cash on hand and cash provided by operations will be sufficient to support seasonal working capital requirements and capital expenditures, although the Company may borrow under its Credit Facility from time to time to support seasonal working capital requirements during Fiscal 2012. The approximately \$10.1 million of costs associated with discontinued operations that are expected to be paid during the next twelve months are expected to



be funded from cash on hand, cash generated from operations and borrowings under the Credit Facility during Fiscal 2012.

#### *Common Stock Repurchases*

The Company did not repurchase any shares during the three months ended April 30, 2011. The Company repurchased 1,700 shares at a cost of \$48,000 during the three months ended May 1, 2010.

#### **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 8 to the Company's Condensed Consolidated Financial Statements. The Company has made pretax accruals for certain of these contingencies, including approximately \$0.4 million in each of the first quarters of Fiscal 2012 and Fiscal 2011. These charges are included in the provision for discontinued operations, net in the Condensed Consolidated Statements of Operations. 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 reasonable estimate of the probable loss connected to the proceeding, or in cases in which no reasonable 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 may not 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.

#### **Financial Market Risk**

The following discusses the Company's exposure to financial market risk related to changes in interest rates.

**Outstanding Debt of the Company** The Company does not have any outstanding debt as of April 30, 2011.

**Cash and Cash Equivalents** The Company's cash and cash equivalent balances are invested in financial instruments with original maturities of three months or less. The Company did not have significant exposure to changing interest rates on invested cash at April 30, 2011. As a result, the Company considers the interest rate market risk implicit in these investments at April 30, 2011 to be low.

**Foreign Currency Exchange Rate Risk** Most purchases by the Company from foreign sources are denominated in U.S. dollars. To the extent that import transactions are denominated in other currencies, it is the Company's practice to hedge its risks through the purchase of forward foreign exchange contracts when the purchases are material. At April 30, 2011, the Company had \$0.6 million of forward foreign exchange contracts for Euro. The Company's policy is not to speculate in derivative instruments for profit on the exchange rate price fluctuation and it does not hold any derivative instruments for trading purposes. Derivative instruments used as hedges must be effective at reducing the risk associated with the exposure being hedged and must be designated as

a hedge at the inception of the contract. The unrealized gain on contracts outstanding at April 30, 2011 was less than \$0.1 million based on current spot rates. As of April 30, 2011, a 10% adverse change in foreign currency exchange rates from market rates would decrease the fair value of the contracts by approximately \$0.1 million.

**Accounts Receivable** The Company's accounts receivable balance at April 30, 2011 is concentrated in two of its footwear wholesale businesses, which sell primarily to department stores and independent retailers across the United States and its Lids Team Sports wholesale business, which sells primarily to colleges and high school athletic teams and their fan bases. Including both footwear wholesale and Lids Team Sports receivables, one customer accounted for 13% of the Company's total trade accounts receivable balance and no other customer accounted for more than 6% of the Company's total trade receivables balance as of April 30, 2011. The Company monitors the credit quality of its customers and establishes an allowance for doubtful accounts based upon factors surrounding credit risk of specific customers, historical trends and other information, as well as customer specific factors; however, credit risk is affected by conditions or occurrences within the economy and the retail industry, as well as company-specific information.

**Summary** Based on the Company's overall market interest rate exposure at April 30, 2011, the Company believes that the effect, if any, of reasonably possible near-term changes in interest rates or foreign exchange rates on the Company's consolidated financial position, results of operations or cash flows for Fiscal 2012 would not be material.

### **New Accounting Principles**

Descriptions of the recently issued accounting principles, if any, and the accounting principles adopted by the Company during the three months ended April 30, 2011 are included in Note 1 to the Condensed Consolidated Financial statements.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

The Company incorporates by reference the information regarding market risk appearing under the heading "Financial Market Risk" in Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations.

### **Item 4. Controls and Procedures**

*Evaluation of disclosure controls and procedures.*

We have established disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to the officers who certify the Company's financial reports and to other members of senior management and the Board of Directors.

Based on their evaluation as of April 30, 2011, the principal executive officer and principal financial officer of the Company 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) were effective to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within time periods specified in SEC rules and forms and (ii) accumulated and communicated to the Company's management, including the Company's principal

executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

*Changes in internal control over financial reporting.*

There were no changes in the Company's internal control over financial reporting that occurred during the Company's first fiscal quarter that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

**PART II OTHER INFORMATION****Item 1. Legal Proceedings**

The Company incorporates by reference the information regarding legal proceedings in Note 8 of the Company's Condensed Consolidated Financial Statements.

**Item 1A. Risk Factors**

There have been no material changes to the risk factors previously disclosed in Item 1A. Risk Factors in the Company's Annual Report on Form 10-K for the year ended January 29, 2011.

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

(c) Repurchases (shown in 000's except share and per share amounts):

**ISSUER PURCHASES OF EQUITY SECURITIES**

Period	(a) Total of Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of shares that May Yet Be Purchased Under the Plans or Programs (in thousands)
February 2011 1-30-11 to 2-26-11 <sup>(1)</sup>	269	\$40.48	-0-	\$ -0-
March 2011 2-27-11 to 3-26-11 <sup>(1)</sup>	37,710	\$39.07	-0-	\$ -0-
April 2011 3-27-11 to 4-30-11	-0-	\$ -0-	-0-	\$ -0-

(1) These shares represent shares withheld from vested restricted stock to satisfy the minimum withholding requirement for federal and state taxes.

**Item 6. Exhibits**  
**Exhibits**

- (10)a. Amended and Restated EVA Incentive Compensation Plan.
- (31.1) Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- (31.2) Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- (32.1) Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- (32.2) Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**SIGNATURE**

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.

Genesco Inc.

By: /s/ James S. Gulmi  
James S. Gulmi  
Senior Vice President Finance and  
Chief Financial Officer

Date: June 9, 2011