

GENESCO INC  
Form 10-Q  
September 06, 2012  
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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 July 28, 2012

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  
(State or other jurisdiction of  
incorporation or organization) 62-0211340  
(I.R.S. Employer  
Identification No.)

Genesco Park, 1415 Murfreesboro Road  
Nashville, Tennessee 37217-2895  
(Address of principal executive offices) (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  (Do not check if smaller reporting company.) 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

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As of August 31, 2012, 24,292,044 shares of the registrant's common stock were outstanding.

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements (unaudited)

Genesco Inc.  
and Subsidiaries  
Condensed Consolidated Balance Sheets  
(In Thousands, except share amounts)

| Assets  | July 28,<br>2012 | January 28,<br>2012 | Recast July<br>30,<br>2011(1) |
|---|------------------|---------------------|-------------------------------|
| Current Assets:   |                  |                     |                               |
| Cash and cash equivalents   | \$47,222         | \$53,790            | \$35,582                      |
| Accounts receivable, net of allowances of \$6,071 at July 28, 2012,<br>\$6,900 at January 28, 2012 and \$4,876 at July 30, 2011                   | 45,709           | 43,713              | 43,305                        |
| Inventories   | 555,626          | 435,113             | 474,951                       |
| Deferred income taxes   | 22,685           | 22,541              | 32,034                        |
| Prepays and other current assets  | 57,990           | 40,155              | 59,841                        |
| Total current assets  | 729,232          | 595,312             | 645,713                       |
| Property and equipment:   |                  |                     |                               |
| Land  | 6,119            | 6,118               | 6,172                         |
| Buildings and building equipment  | 20,336           | 20,260              | 20,359                        |
| Computer hardware, software and equipment   | 122,881          | 116,920             | 106,902                       |
| Furniture and fixtures  | 137,063          | 127,949             | 120,628                       |
| Construction in progress  | 11,388           | 7,158               | 9,175                         |
| Improvements to leased property   | 305,891          | 299,775             | 292,799                       |
| Property and equipment, at cost   | 603,678          | 578,180             | 556,035                       |
| Accumulated depreciation  | (372,150)        | (350,491)           | (327,557)                     |
| Property and equipment, net   | 231,528          | 227,689             | 228,478                       |
| Deferred income taxes   | 26,740           | 28,152              | 17,653                        |
| Goodwill  | 269,310          | 259,759             | 260,363                       |
| Trademarks, net of accumulated amortization of<br>\$2,787 at July 28, 2012, \$2,246 at January 28, 2012 and<br>\$1,712 at July 30, 2011           | 77,768           | 78,276              | 79,891                        |
| Other intangibles, net of accumulated amortization of<br>\$15,406 at July 28, 2012, \$13,645 at January 28, 2012 and<br>\$11,857 at July 30, 2011 | 13,177           | 14,808              | 16,342                        |
| Other noncurrent assets   | 33,203           | 33,269              | 30,136                        |
| Total Assets  | \$1,380,958      | \$1,237,265         | \$1,278,576                   |

(1) Certain previously reported July 30, 2011 balances have been recast to reflect the effects of finalizing the allocation of the Schuh purchase price. See Note 2 for additional information.



Genesco Inc.  
and Subsidiaries  
Condensed Consolidated Balance Sheets  
(In Thousands, except share amounts)

| Liabilities and Equity                        | July 28,<br>2012 | January 28,<br>2012 | Recast July<br>30,<br>2011(1) |
|---|------------------|---------------------|-------------------------------|
| <b>Current Liabilities:</b>                   |                  |                     |                               |
| Accounts payable                              | \$212,938        | \$138,938           | \$197,653                     |
| Accrued employee compensation                 | 50,587           | 53,029              | 41,804                        |
| Accrued other taxes                           | 23,436           | 26,293              | 18,361                        |
| Accrued income taxes                          | 2,778            | 16,390              | 1,263                         |
| Current portion – long-term debt              | 5,497            | 8,773               | 5,113                         |
| Other accrued liabilities                     | 65,141           | 52,789              | 48,616                        |
| Provision for discontinued operations         | 7,511            | 8,250               | 9,308                         |
| Total current liabilities                     | 367,888          | 304,462             | 322,118                       |
| Long-term debt                                | 95,001           | 31,931              | 159,406                       |
| Pension liability                             | 24,470           | 22,201              | 13,143                        |
| Deferred rent and other long-term liabilities | 151,600          | 156,794             | 126,430                       |
| Provision for discontinued operations         | 4,267            | 4,267               | 4,363                         |
| Total liabilities                             | 643,226          | 519,655             | 625,460                       |
| Commitments and contingent liabilities        |                  |                     |                               |
| <b>Equity</b>                                 |                  |                     |                               |
| Non-redeemable preferred stock                | 4,066            | 4,957               | 5,160                         |
| <b>Common equity:</b>                         |                  |                     |                               |
| Common stock, \$1 par value:                  |                  |                     |                               |
| Authorized: 80,000,000 shares                 |                  |                     |                               |
| Issued/Outstanding:                           |                  |                     |                               |
| July 28, 2012 – 24,782,586/24,294,122         |                  |                     |                               |
| January 28, 2012 – 24,757,826/24,269,362      |                  |                     |                               |
| July 30, 2011 – 24,651,206/24,162,742         | 24,783           | 24,758              | 24,651                        |
| Additional paid-in capital                    | 164,032          | 149,479             | 141,440                       |
| Retained earnings                             | 593,409          | 586,990             | 519,527                       |
| Accumulated other comprehensive loss          | (32,825 )        | (32,966 )           | (22,272 )                     |
| Treasury shares, at cost                      | (17,857 )        | (17,857 )           | (17,857 )                     |
| Total Genesco equity                          | 735,608          | 715,361             | 650,649                       |
| Noncontrolling interest – non-redeemable      | 2,124            | 2,249               | 2,467                         |
| Total equity                                  | 737,732          | 717,610             | 653,116                       |
| Total Liabilities and Equity                  | \$1,380,958      | \$1,237,265         | \$1,278,576                   |

(1) Certain previously reported July 30, 2011 balances have been recast to reflect the effects of finalizing the allocation of the Schuh purchase price. See Note 2 for additional information.

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)

|   | Three Months Ended |                  | Six Months Ended |                  |
|---|--------------------|------------------|------------------|------------------|
|   | July 28,<br>2012   | July 30,<br>2011 | July 28,<br>2012 | July 30,<br>2011 |
| Net sales   | \$543,522          | \$470,591        | \$1,143,666      | \$952,093        |
| Cost of sales   | 269,294            | 233,307          | 560,135          | 467,267          |
| Selling and administrative expenses                     | 256,869            | 235,286          | 530,030          | 456,059          |
| Asset impairments and other, net                        | 404                | 347              | 539              | 1,591            |
| Earnings from operations                                | 16,955             | 1,651            | 52,962           | 27,176           |
| Interest expense, net:                                  |                    |                  |                  |                  |
| Interest expense  | 1,217              | 1,097            | 2,349            | 1,613            |
| Interest income   | (10                | ) (16            | ) (25            | ) (18            |
| Total interest expense, net                             | 1,207              | 1,081            | 2,324            | 1,595            |
| Earnings from continuing operations before income taxes | 15,748             | 570              | 50,638           | 25,581           |
| Income tax expense                                      | 5,187              | 220              | 19,286           | 10,256           |
| Earnings from continuing operations                     | 10,561             | 350              | 31,352           | 15,325           |
| Provision for discontinued operations, net              | (41                | ) (742           | ) (218           | ) (924           |
| Net Earnings (Loss)                                     | \$10,520           | \$(392           | )\$31,134        | \$14,401         |
| Basic earnings (loss) per common share:                 |                    |                  |                  |                  |
| Continuing operations                                   | \$0.44             | \$0.01           | \$1.32           | \$0.66           |
| Discontinued operations                                 | 0.00               | (0.03            | ) (0.01          | ) (0.04          |
| Net earnings (loss)                                     | \$0.44             | \$(0.02          | )\$1.31          | \$0.62           |
| Diluted earnings (loss) per common share:               |                    |                  |                  |                  |
| Continuing operations                                   | \$0.44             | \$0.01           | \$1.29           | \$0.65           |
| Discontinued operations                                 | (0.01              | ) (0.03          | ) 0.00           | (0.04            |
| Net earnings (loss)                                     | \$0.43             | \$(0.02          | )\$1.29          | \$0.61           |

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

Genesco Inc.  
and Subsidiaries  
Condensed Consolidated Statements of Comprehensive Income  
(In Thousands)

|  | Three Months Ended |                  | Six Months Ended |                  |
|--|--------------------|------------------|------------------|------------------|
|  | July 28,<br>2012   | July 30,<br>2011 | July 28,<br>2012 | July 30,<br>2011 |
| Net earnings (loss)  | \$10,520           | \$(392)          | )\$31,134        | \$14,401         |
| Other comprehensive (loss) income:   |                    |                  |                  |                  |
| Gain (loss) on foreign currency forward contract,<br>net of tax of \$0.0 million for each period | (9                 | ) 9              | (20              | ) 63             |
| Foreign currency translation adjustments   | (4,169             | ) 1,387          | 161              | 1,970            |
| Total other comprehensive (loss) income  | (4,178             | ) 1,396          | 141              | 2,033            |
| Comprehensive income   | \$6,342            | \$1,004          | \$31,275         | \$16,434         |

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



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Genesco Inc.  
and Subsidiaries  
Condensed Consolidated Statements of Cash Flows  
(In Thousands)

|   | Three Months Ended |                  | Six Months Ended |                  |
|---|--------------------|------------------|------------------|------------------|
|   | July 28,<br>2012   | July 30,<br>2011 | July 28,<br>2012 | July 30,<br>2011 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                    |                  |                  |                  |
| Net earnings (loss)   | \$10,520           | \$(392)          | )\$31,134        | \$14,401         |
| Adjustments to reconcile net earnings (loss) to net cash used in operating activities:                |                    |                  |                  |                  |
| Depreciation and amortization   | 15,291             | 13,002           | 30,544           | 25,204           |
| Amortization of deferred note expense and debt discount   | 198                | 165              | 396              | 311              |
| Deferred income taxes   | 1,657              | 1,531            | (2,204)          | ) 318            |
| (Recoveries) Provision for losses on accounts receivable  | (592)              | ) 435            | 855              | 676              |
| Impairment of long-lived assets   | 391                | 313              | 437              | 1,060            |
| Restricted stock and share-based compensation   | 2,444              | 1,641            | 4,655            | 3,237            |
| Provision for discontinued operations   | 67                 | 1,224            | 360              | 1,524            |
| Tax benefit of stock options exercised  | (2,340)            | ) (3,558)        | ) (4,666)        | ) (3,558)        |
| Other   | 281                | 240              | 639              | 589              |
| Effect on cash from changes in working capital and other assets and liabilities, before acquisitions: |                    |                  |                  |                  |
| Accounts receivable   | 2,474              | 5,085            | (2,864)          | ) 5,498          |
| Inventories   | (109,802)          | ) (69,738)       | ) (118,708)      | ) (81,804)       |
| Prepays and other current assets  | (15,048)           | ) (17,884)       | ) (17,763)       | ) (18,473)       |
| Accounts payable  | 55,981             | 53,567           | 64,386           | 67,279           |
| Other accrued liabilities   | 10,636             | (6,018)          | ) (9,325)        | ) (25,746)       |
| Other assets and liabilities  | (1,225)            | ) (9,791)        | ) 631            | (8,696)          |
| Net cash used in operating activities   | (29,067)           | ) (30,178)       | ) (21,493)       | ) (18,180)       |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                    |                  |                  |                  |
| Capital expenditures  | (18,415)           | ) (13,616)       | ) (32,533)       | ) (23,213)       |
| Acquisitions, net of cash acquired  | (10,797)           | ) (87,402)       | ) (10,797)       | ) (87,402)       |
| Proceeds from asset sales   | 21                 | 23               | 38               | 23               |
| Net cash used in investing activities   | (29,191)           | ) (100,995)      | ) (43,292)       | ) (110,592)      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                    |                  |                  |                  |
| Payments of capital leases  | —                  | —                | —                | (21)             |
| Payments of long-term debt  | (6,404)            | ) (16,074)       | ) (7,597)        | ) (16,074)       |
| Borrowings under revolving credit facility  | 156,400            | 151,000          | 190,700          | 151,000          |
| Payments on revolving credit facility   | (84,600)           | ) (33,519)       | ) (123,900)      | ) (33,519)       |
| Tax benefit of stock options and restricted stock exercised   | 2,340              | 3,558            | 4,666            | 3,558            |
| Share repurchases   | (20,227)           | ) —              | (20,227)         | ) —              |
| Change in overdraft balances  | 4,058              | 455              | 9,612            | (2,823)          |
| Dividends paid on non-redeemable preferred stock  | (35)               | ) (49)           | ) (81)           | ) (98)           |
| Exercise of stock options   | —                  | 5,470            | 4,783            | 7,309            |
| Other   | (1)                | ) (846)          | ) —              | (912)            |
| Net cash provided by financing activities   | 51,531             | 109,995          | 57,956           | 108,420          |
| Effect of foreign exchange rate fluctuations on cash  | (875)              | ) —              | 261              | —                |
| Net Decrease in Cash and Cash Equivalents   | (7,602)            | ) (21,178)       | ) (6,568)        | ) (20,352)       |
| Cash and cash equivalents at beginning of period  | 54,824             | 56,760           | 53,790           | 55,934           |

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|  |          |          |          |          |
|--|----------|----------|----------|----------|
| Cash and cash equivalents at end of period | \$47,222 | \$35,582 | \$47,222 | \$35,582 |
| Supplemental Cash Flow Information:        |          |          |          |          |
| Net cash paid for:                         |          |          |          |          |
| Interest                                   | \$850    | \$1,539  | \$1,709  | \$1,824  |
| Income taxes                               | 27,528   | 26,439   | 44,913   | 38,573   |

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

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Genesco Inc.  
and Subsidiaries  
Condensed Consolidated Statements of Equity  
(In Thousands)

|   | Total<br>Non-Redeemable<br>Preferred<br>Stock | Common<br>Stock | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Treasury<br>Stock | Non<br>Controlling<br>Interest<br>Non-Redeemable | Total<br>Equity |
|---|---|-----------------|----------------------------------|----------------------|---|-------------------|--|-----------------|
| Balance January 29, 2011                                    | \$ 5,183                                      | \$24,163        | \$131,910                        | \$505,224            | \$ (24,305 )                                  | \$(17,857)        | \$ 2,503   | \$626,821       |
| Net earnings  | —   | —               | —                                | 81,959               | —   | —                 | —  | 81,959          |
| Other comprehensive loss                                    | —   | —               | —                                | —                    | (8,661 )                                      | —                 | —  | (8,661 )        |
| Dividends paid on non-redeemable preferred stock            | —   | —               | —                                | (193 )               | —   | —                 | —  | (193 )          |
| Exercise of stock options                                   | —   | 390             | 9,297                            | —                    | —   | —                 | —  | 9,687           |
| Issue shares – Employee Stock Purchase Plan                 | —   | 3               | 130                              | —                    | —   | —                 | —  | 133             |
| Employee and non-employee restricted stock                  | —   | —               | 7,659                            | —                    | —   | —                 | —  | 7,659           |
| Share-based compensation                                    | —   | —               | 1                                | —                    | —   | —                 | —  | 1               |
| Restricted stock issuance                                   | —   | 304             | (304 )                           | —                    | —   | —                 | —  | —               |
| Restricted shares withheld for taxes                        | —   | (93 )           | (4,034 )                         | —                    | —   | —                 | —  | (4,127 )        |
| Tax benefit of stock options and restricted stock exercises | —   | —               | 4,585                            | —                    | —   | —                 | —  | 4,585           |
| Other   | (226 )  | (9 )            | 235                              | —                    | —   | —                 | —  | —               |
| Noncontrolling interest – loss                              | —   | —               | —                                | —                    | —   | —                 | (254 )   | (254 )          |
| Balance January 28, 2012                                    | 4,957   | 24,758          | 149,479                          | 586,990              | (32,966 )                                     | (17,857 )         | 2,249  | 717,610         |
| Net earnings  | —   | —               | —                                | 31,134               | —   | —                 | —  | 31,134          |
| Other comprehensive income                                  | —   | —               | —                                | —                    | 141   | —                 | —  | 141             |
| Dividends paid on non-redeemable preferred stock            | —   | —               | —                                | (81 )                | —   | —                 | —  | (81 )           |
| Exercise of stock options                                   | —   | 222             | 4,561                            | —                    | —   | —                 | —  | 4,783           |
|   | —   | —               | 4,655                            | —                    | —   | —                 | —  | 4,655           |

|   |          |           |            |            |              |             |          |            |
|---|----------|-----------|------------|------------|--------------|-------------|----------|------------|
| Employee and non-employee restricted stock                  |          |           |            |            |              |             |          |            |
| Restricted stock issuance                                   | —        | 194       | (194 )     | —          | —            | —           | —        | —          |
| Restricted shares withheld for taxes                        | —        | (71 )     | —          | (4,154 )   | —            | —           | —        | (4,225 )   |
| Tax benefit of stock options and restricted stock exercised | —        | —         | 4,666      | —          | —            | —           | —        | 4,666      |
| Shares repurchased  | —        | (346 )    | —          | (20,480 )  | —            | —           | —        | (20,826 )  |
| Other   | (891 )   | 26        | 865        | —          | —            | —           | —        | —          |
| Noncontrolling interest – loss                              | —        | —         | —          | —          | —            | —           | (125 )   | (125 )     |
| Balance July 28, 2012                                       | \$ 4,066 | \$ 24,783 | \$ 164,032 | \$ 593,409 | \$ (32,825 ) | \$ (17,857) | \$ 2,124 | \$ 737,732 |

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

Genesco Inc.  
and Consolidated Subsidiaries  
Notes to Condensed Consolidated Financial Statements (unaudited)

Note 1  
Summary of Significant Accounting Policies

Interim Statements

The condensed consolidated financial statements and footnotes 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 February 2, 2013 ("Fiscal 2013") and of the fiscal year ended January 28, 2012 ("Fiscal 2012"). 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, Underground by Journeys and Johnston & Murphy banners and under the Schuh banner in the United Kingdom and the Republic of Ireland; through e-commerce websites including journeys.com, journeyskidz.com, shibyjourneys.com, undergroundbyjourneys.com, schuh.co.uk and johnstonmurphy.com, and at wholesale, primarily under the Company's Johnston & Murphy brand, the Dockers brand, the SureGrip brand and other brands that the Company licenses for men's footwear. The Company's business also includes Lids Sports Group, 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; certain e-commerce operations and an athletic team dealer business operating as Lids Team Sports. Including both the footwear businesses and the Lids Sports business, at July 28, 2012, the Company operated 2,404 retail stores in the U.S., Puerto Rico, Canada, the United Kingdom and the Republic of Ireland.

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 and Recasting

The Condensed Consolidated Balance Sheet at July 30, 2011 has been derived from the Consolidated Financial Statements at that date as recast to reflect the effects of finalizing the allocation of the Schuh purchase price, but does not include all the notes required by generally accepted accounting principles for complete financial statements. As a result of the change in total assets for the period ended July 30, 2011, total segment assets in Note 9 for Schuh Group and Corporate and Other have been recast by \$5.9 million and \$11.8 million, respectively. For additional information, refer to the Consolidated Financial Statements and related notes for the year ended January 28, 2012 included in the Company's Annual Report on Form 10-K.



Genesco Inc.  
and Consolidated Subsidiaries  
Notes to Condensed Consolidated Financial Statements (unaudited)

Note 1  
Summary of Significant Accounting Policies, Continued

Certain reclassifications have been made to conform prior years' data to the current year presentation. The Company integrated the Underground Station operations into the Journeys Group in the first quarter of Fiscal 2013. The former Underground Station stores will be a subset of Journeys Group under the brand "Underground by Journeys." Journeys Group segment net sales, operating income, total assets, depreciation and amortization and capital expenditures have been restated by \$17.4 million, \$(2.9) million, \$28.3 million, \$0.4 million and \$0.1 million, respectively, for the three months ended July 30, 2011 and \$43.2 million, \$(1.8) million, \$28.3 million, \$0.9 million and \$0.1 million, respectively, for the six months ended July 30, 2011 as a result of combining Underground Station Group with the Journeys Group segment to conform to current year presentation (See Note 9).

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, its Schuh Group segment and its Lids Sports Group wholesale operations, except for the Anaconda Sports wholesale division, cost is determined using the first-in, first-out ("FIFO") method. Market value 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 value 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 Group 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 Schuh Group and Lids Sports Group retail segments, 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.

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Note 1  
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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 assesses the realizability of its long-lived assets and evaluates such assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Asset impairment is determined to exist if estimated future cash flows, undiscounted and without interest charges, are less than the carrying amount. Inherent in the analysis of impairment are subjective judgments about future cash flows. Failure to make appropriate conclusions regarding these judgments may result in an overstatement or understatement of the value of long-lived assets. See also 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. 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. 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.

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



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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.

Environmental and Other Contingencies

The Company is subject to certain loss contingencies related to environmental proceedings and other legal matters. The Company has made pretax accruals for certain of these contingencies, including approximately \$0.1 million and \$1.2 million in the second quarter of Fiscal 2013 and 2012, respectively, and \$0.4 million and \$1.6 million in the first six months of Fiscal 2013 and 2012, respectively. These charges are included in provision for discontinued operations, net in the Condensed Consolidated Statements of Operations because they relate to former facilities operated by the Company. The Company monitors these matters on an ongoing basis and, on a quarterly basis, management reviews the Company's reserves and accruals, 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, 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. See also Notes 3 and 8.

Revenue Recognition

Retail sales are recorded at the point of sale and are net of estimated returns and exclude sales and value added 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

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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. These deferred tax valuation allowances may be released in future years when management considers that it is more likely than not that some portion or all of the deferred tax assets will be realized. In making such a determination, management will need to periodically evaluate whether or not all available evidence, such as future taxable income and reversal of temporary differences, tax planning strategies, and recent results of operations, provides sufficient positive evidence to offset any potential negative evidence that may exist at such time. In the event the deferred tax valuation allowance is released, the Company would record an income tax benefit for the portion or all of the deferred tax valuation allowance released. At July 28, 2012, the Company had a deferred tax valuation allowance of \$3.5 million.

The Company recorded an effective income tax rate of 32.9% in the second quarter of Fiscal 2013 compared to 38.6% for the same period last year and 38.1% and 40.1% for the first six months of Fiscal 2013 and 2012, respectively. This year's tax rate is lower due to a tax rate reduction in the UK and increases in certain state tax credits.

Income tax reserves for certain tax positions 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. The Company believes it is reasonably possible that there will be an \$8.0 million decrease in the gross tax liability for uncertain tax positions within the next 12 months based upon the expiration of statutes of limitation in various tax jurisdictions and potential settlements.

#### 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 Group and Schuh Group segments, are covered by a defined benefit pension plan. The Company froze the defined benefit pension plan effective January 1, 2005. The Company also provides certain former employees with limited medical and life insurance benefits. The Company funds at least the minimum amount required by the Employee Retirement Income Security Act.



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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. There was no share-based compensation expense related to stock options for the second quarter and first six months of Fiscal 2013 and 2012. The Company has not issued any new stock option awards since the first quarter of Fiscal 2008. For the second quarter of Fiscal 2013 and 2012, restricted stock expense was \$2.5 million and \$1.6 million, respectively. For the first six months of Fiscal 2013 and 2012, restricted stock expense was \$4.7 million and \$3.2 million, respectively. 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. The benefits of tax deductions in excess of recognized compensation expense are reported as a financing cash flow.

During the three months and six months ended July 28, 2012, the Company issued 194,232 shares of employee restricted stock at a grant date fair value of \$57.58 per share which vest over a four-year term. For the three months and six months ended July 28, 2012, the Company issued 9,888 shares and 10,224 shares of director restricted stock at a weighted average price of \$64.70 and \$65.06, respectively, which vest on the first anniversary of the grant date. During the three months and six months ended July 30, 2011, the Company issued 289,407 shares of employee restricted stock at a grant date fair value of \$45.14 per share which vest over a four-year term. For the three months and six months ended July 30, 2011, the Company issued 14,643 shares of director restricted stock at a weighted average price of \$43.01 which vest on the first anniversary of the grant date.

Cash and Cash Equivalents

Included in cash and cash equivalents at July 28, 2012, January 28, 2012 and July 30, 2011 are cash equivalents of \$0.1 million, \$0.2 million and \$0.1 million, respectively. Cash equivalents are highly-liquid financial instruments having an original maturity of three months or less. At July 28, 2012, substantially all of the Company's domestic cash was invested in deposit accounts at FDIC-insured banks. All of the Company's domestic deposit account balances are currently FDIC insured as a

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result of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The majority of payments due from banks for domestic customer credit card transactions process within 24 - 48 hours and are accordingly classified as cash and cash equivalents.

At July 28, 2012, January 28, 2012 and July 30, 2011, outstanding checks drawn on zero-balance accounts at certain domestic banks exceeded book cash balances at those banks by approximately \$48.6 million , \$39.0 million and \$33.3 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 colleges and high school athletic teams and their fan bases. Including both footwear wholesale and Lids Team Sports wholesale business receivables, one customer accounted for 8% 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 July 28, 2012.

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

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Summary of Significant Accounting Policies, Continued

The Company occasionally receives reimbursements from landlords to be used towards construction of the store the Company intends to lease. Leasehold improvements are recorded at their gross costs including items reimbursed by landlords. The reimbursements are amortized as a reduction of rent expense over the initial lease term. Tenant allowances of \$18.4 million, \$17.6 million and \$17.4 million at July 28, 2012, January 28, 2012 and July 30, 2011, respectively, and deferred rent of \$35.8 million, \$35.2 million and \$34.0 million at July 28, 2012, January 28, 2012 and July 30, 2011, respectively, are included in deferred rent and other long-term liabilities on the Condensed Consolidated Balance Sheets.

Goodwill and Other Intangibles

Under the provisions of 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 Schuh Group Ltd. in June 2011 and Hat World Corporation in April 2004. The Condensed Consolidated Balance Sheets include goodwill of \$168.5 million for the Lids Sports Group, \$100.0 million for the Schuh Group and \$0.8 million for Licensed Brands at July 28, 2012, \$159.1 million for the Lids Sports Group, \$99.9 million for the Schuh Group and \$0.8 million for Licensed Brands at January 28, 2012 and \$155.4 million for the Lids Sports Group, \$104.2 million for the Schuh Group and \$0.8 million for Licensed Brands at July 30, 2011. 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 trademarks, customer lists, in-place leases, non-compete agreements and a vendor contract acquired in connection with the acquisitions of Hat World, Inc. in April 2004, 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, Keuka Footwear in August 2010, Sports Avenue in October 2010 and Schuh in June 2011. 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.

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Note 1  
Summary of Significant Accounting Policies, Continued

Fair Value of Financial Instruments

The carrying amounts and fair values of the Company's financial instruments at July 28, 2012 and January 28, 2012 are:

Fair Values

| In thousands             | July 28,<br>2012   |               | January 28,<br>2012 |               |
|--------------------------|--------------------|---------------|---------------------|---------------|
|                          | Carrying<br>Amount | Fair<br>Value | Carrying<br>Amount  | Fair<br>Value |
| U.S. Revolver Borrowings | \$71,800           | \$72,074      | \$5,000             | \$5,021       |
| UK Term Loans            | 28,697             | 28,726        | 35,704              | 35,387        |

Debt fair values were determined using the income approach which is generally measured using a discounted cash flow analysis based on current market interest rates for similar types of financial instruments and would be classified in Level 2 as defined in Note 5.

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.

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 \$1.8 million and \$1.9 million for the second quarters of Fiscal 2013 and 2012, respectively, and \$3.8 million and \$4.3 million for the first six months of Fiscal 2013 and 2012, 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





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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 for each of the second quarters of Fiscal 2013 and 2012 and \$0.2 million for each of the first six months of Fiscal 2013 and 2012. The Condensed Consolidated Balance Sheets include an accrued liability for gift cards of \$9.4 million, \$10.4 million and \$7.3 million at July 28, 2012, January 28, 2012 and July 30, 2011, 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.

**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

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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.

Advertising Costs

Advertising costs are predominantly expensed as incurred. Advertising costs were \$10.4 million and \$8.4 million for the second quarter of Fiscal 2013 and 2012, respectively, and \$21.1 million and \$18.1 million for the first six months of Fiscal 2013 and 2012, 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 period as revenues are realized from such advertising, not to exceed six months. The Condensed Consolidated Balance Sheets include prepaid assets for direct response advertising costs of \$1.7 million, \$1.1 million and \$1.4 million at July 28, 2012, January 28, 2012 and July 30, 2011.

Consideration to Resellers

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

Cooperative Advertising

Cooperative advertising funds are made available to all of the Company's wholesale customers. In order for retailers to receive reimbursement under such programs, the retailer must meet specified advertising guidelines and provide appropriate documentation of expenses to be reimbursed. The Company's cooperative advertising agreements require that wholesale customers present documentation or other evidence of specific advertisements or display materials used for the Company's products by submitting the actual print advertisements presented in catalogs, newspaper inserts or other advertising circulars, or by permitting physical inspection of displays. Additionally, the Company's cooperative advertising agreements require that the amount of reimbursement requested for such advertising or materials be supported by invoices or other evidence of the actual costs incurred by the retailer. The Company accounts for these cooperative advertising costs as selling and administrative expenses, in accordance with the Revenue Recognition Topic for Customer Payments and Incentives of the Codification.

Cooperative advertising costs recognized in selling and administrative expenses were \$0.7 million and \$0.8 million for the second quarter of Fiscal 2013 and 2012, respectively, and \$1.7 million for each of the first six months of Fiscal 2013 and 2012. During the first six months of Fiscal 2013 and 2012, the Company's cooperative advertising reimbursements paid did not exceed the fair value of the benefits received under those agreements.

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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 \$0.7 million and \$0.9 million for the second quarter of Fiscal 2013 and 2012, respectively, and \$1.6 million and \$1.8 million for the first six months of Fiscal 2013 and 2012, respectively. During the first six months of Fiscal 2013 and 2012, 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).

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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 July 28, 2012 consisted of \$29.6 million of cumulative pension liability adjustments, net of tax, a cumulative post retirement liability adjustment of \$0.3 million, net of tax, and a foreign currency translation adjustment of \$2.9 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. In prior periods, the Company 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.

There were no such contracts outstanding at July 28, 2012, January 28, 2012 and July 30, 2011. For the six months ended July 28, 2012, the Company recorded an unrealized loss on foreign currency forward contracts of less than \$0.1 million in accumulated other comprehensive loss, before taxes. The Company monitors the credit quality of the major international, national and regional financial institutions with which it enters into such contracts.

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

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Summary of Significant Accounting Policies, Continued

New Accounting Principles

In June 2011, FASB issued Accounting Standards Update No. 2011-05, an update to the FASB Codification Comprehensive Income Topic, which amends the existing accounting standards related to the presentation of comprehensive income in a company's financial statements. This update requires that all non-owner changes in shareholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two statement approach, the first statement would present total net earnings and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income and the total of comprehensive income. Under either presentation alternative, reclassification adjustments and the effect of those adjustments on net earnings and other comprehensive income must be presented in the respective statement or statements, as applicable. The Company adopted this update for the first quarter of Fiscal 2013 and has included a separate statement of comprehensive income in its Condensed Consolidated Financial Statements. The adoption did not have a significant impact on the Company's results of operations or financial position.

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Note 2  
Acquisitions and Intangible Assets

Schuh Acquisition

On June 23, 2011, the Company, through its newly-formed, wholly-owned subsidiary Genesco (UK) Limited (“Genesco UK”), completed the acquisition of all the outstanding shares of Schuh Group Ltd. (“Schuh”) for a total purchase price of approximately £100.0 million, less £29.5 million outstanding under existing Schuh credit facilities, which remain in place, less a £1.9 million working capital adjustment and plus £6.2 million net cash acquired, with £5.0 million withheld and payable in June 2013. The Company financed the acquisition with borrowings under its existing credit facility and the balance from cash on hand. The purchase agreement also provides for deferred purchase price payments totaling £25 million, payable £15 million and £10 million on the third and fourth anniversaries of the closing, respectively, subject to the payees’ not having terminated their employment with Schuh under certain specified circumstances. This amount will be recorded as compensation expense and not reported as a component of the cost of the acquisition.

Headquartered in Scotland, Schuh is a specialty retailer of casual and athletic footwear sold through 69 retail stores in the United Kingdom and the Republic of Ireland and 14 concessions in Republic apparel stores as of July 28, 2012. The Company completed the acquisition in order to enhance its strategic development and prospects for growth and provide the Company with an established retail presence in the United Kingdom and improved insight into global fashion trends. The results of Schuh’s operations for the three months ended July 28, 2012 include net sales of \$81.2 million and an operating loss of \$(0.5) million, and for the six months ended July 28, 2012 include net sales of \$151.5 million and an operating loss of \$(3.5) million, and have been included in the Company’s Condensed Consolidated Financial Statements for the three months and six months ended July 28, 2012. During the three months and six months ended July 28, 2012, compensation expense related to the Schuh acquisition deferred purchase price obligation was \$2.9 million and \$5.9 million, respectively. This expense is included in the operating loss for the Schuh Group segment.

Genesco Inc.  
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Notes to Condensed Consolidated Financial Statements (unaudited)

Note 2  
Acquisitions and Intangible Assets, Continued

The acquisition has been accounted for using the purchase method in accordance with the amended Business Combinations Topic of the Codification. Accordingly, the total purchase price has been allocated to the assets acquired and liabilities assumed based on their estimated fair values at acquisition as follows (amounts in thousands):

|   |           |   |
|---|-----------|---|
| At June 23, 2011                          |           |   |
| Cash                                      | \$24,836  |   |
| Accounts Receivable                       | 4,673     |   |
| Inventories                               | 32,179    |   |
| Other current assets                      | 7,565     |   |
| Property and equipment                    | 30,314    |   |
| Other non-current assets                  | 6,977     |   |
| Deferred taxes                            | 4,197     |   |
| Trademarks                                | 27,224    |   |
| Other intangibles                         | 4,995     |   |
| Goodwill                                  | 102,907   |   |
| Accounts payable                          | (16,196   | ) |
| Other current liabilities                 | (24,718   | ) |
| Long-term debt (includes current portion) | (62,562   | ) |
| Other non-current liabilities             | (26,637   | ) |
| Net Assets Acquired                       | \$115,754 |   |

The trademarks acquired include the concept names and are deemed to have an indefinite life. Other intangibles include a \$1.7 million customer list, a \$2.5 million asset to reflect the adjustment of acquired leases to market and a vendor contract of \$0.8 million. The weighted average amortization period for the asset to adjust acquired leases to market is 2.7 years. The weighted average amortization period for customer lists is 4.6 years.

Goodwill is calculated as the excess of the consideration transferred over the net assets recognized and represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. Specifically, the goodwill recorded as part of the acquisition of Schuh includes the expected purchasing synergies and other benefits that result from combining the Schuh business with the Company, improved insight into global fashion trends, any intangible assets that do not qualify for separate recognition and an acquired assembled workforce. The goodwill related to the Schuh acquisition is not deductible for tax purposes.

Genesco Inc.  
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Note 2  
Acquisitions and Intangible Assets, Continued

The following pro forma information presents the results of operations of the Company as if the Schuh acquisition had taken place at the beginning of Fiscal 2011 or January 31, 2010. Pro forma adjustments have been made to reflect additional interest expense from the \$89.0 million in debt associated with the acquisition, interest expense on the acquired debt, amortization of intangible assets and the related income tax effects.

| In thousands, except per share data | Six Months Ended -<br>Pro forma<br>July 30, 2011 |
|-------------------------------------|--|
| Net sales                           | \$1,044,373                                      |
| Earnings from continuing operations | 16,284   |
| Earnings per share:                 |  |
| Basic                               | \$0.70   |
| Diluted                             | \$0.69   |

The pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations that would have occurred had the Schuh acquisition occurred at the beginning of Fiscal 2011.

Intangible Assets

Other intangibles by major classes were as follows:

| (In Thousands)           | Leases           |                  | Customer Lists   |                  | Other*           |                  | Total            |                  |
|--------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|                          | Jul. 28,<br>2012 | Jan. 28,<br>2012 | Jul. 28,<br>2012 | Jan. 28,<br>2012 | Jul. 28,<br>2012 | Jan. 28,<br>2012 | Jul. 28,<br>2012 | Jan. 28,<br>2012 |
| Gross other intangibles  | \$12,366         | \$12,390         | \$14,105         | \$14,062         | \$2,112          | \$2,001          | \$28,583         | \$28,453         |
| Accumulated amortization | (10,131)         | (9,477)          | (4,285)          | (3,292)          | (990)            | (876)            | (15,406)         | (13,645)         |
| Net Other Intangibles    | \$2,235          | \$2,913          | \$9,820          | \$10,770         | \$1,122          | \$1,125          | \$13,177         | \$14,808         |

\*Includes non-compete agreements, vendor contract and backlog.

The amortization of intangibles, including trademarks, was \$0.9 million and \$0.8 million for the second quarter of Fiscal 2013 and 2012, respectively, and \$1.7 million and \$1.5 million for the first six months of Fiscal 2013 and 2012, respectively. The amortization of intangibles, including trademarks, will be \$4.6 million, \$4.2 million, \$3.1 million, \$2.1 million and \$1.6 million for Fiscal 2013, 2014, 2015, 2016 and 2017, respectively.



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Notes to Condensed Consolidated Financial Statements (unaudited)

Note 3  
Asset Impairments and Other Charges and Discontinued Operations

Asset Impairments 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 asset impairments and other, net in the accompanying Condensed Consolidated Statements of Operations.

The Company recorded a pretax charge to earnings of \$0.4 million in the second quarter of Fiscal 2013, primarily for retail store asset impairments. The Company recorded a pretax charge to earnings of \$0.5 million in the first six months of Fiscal 2013, including \$0.4 million for retail store asset impairments and \$0.1 million for network intrusion expenses.

The Company recorded a pretax charge to earnings of \$0.3 million in the second quarter of Fiscal 2012, primarily for retail store asset impairments. The Company recorded a pretax charge to earnings of \$1.6 million in the first six months of Fiscal 2012, including \$1.1 million for retail store asset impairments, \$0.4 million for network intrusion expenses and \$0.1 million for other legal matters.

Discontinued Operations

Accrued Provision for Discontinued Operations

| In thousands   | Facility<br>Shutdown<br>Costs |   |
|--|-------------------------------|---|
| Balance January 29, 2011                               | \$ 15,035                     |   |
| Additional provision Fiscal 2012                       | 1,692                         |   |
| Charges and adjustments, net                           | (4,210)                       | ) |
| Balance January 28, 2012                               | 12,517                        |   |
| Additional provision Fiscal 2013                       | 360                           |   |
| Charges and adjustments, net                           | (1,099)                       | ) |
| Balance July 28, 2012*                                 | 11,778                        |   |
| Current provision for discontinued operations          | 7,511                         |   |
| Total Noncurrent Provision for Discontinued Operations | \$4,267                       |   |

\*Includes a \$12.3 million environmental provision, including \$8.0 million in current provision for discontinued operations.

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Notes to Condensed Consolidated Financial Statements (unaudited)

Note 4  
Inventories

| In thousands             | July 28,<br>2012 | January 28,<br>2012 |
|--------------------------|------------------|---------------------|
| Raw materials            | \$28,735         | \$30,636            |
| Wholesale finished goods | 48,562           | 53,453              |
| Retail merchandise       | 478,329          | 351,024             |
| Total Inventories        | \$555,626        | \$435,113           |

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.

Genesco Inc.  
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Notes to Condensed Consolidated Financial Statements (unaudited)

Note 5  
Fair Value, Continued

The following table presents the Company's assets (which excludes the Company's pension plan assets) and liabilities measured at fair value on a nonrecurring basis as of July 28, 2012 aggregated by the level in the fair value hierarchy within which those measurements fall (in thousands):

|                               | Long-Lived<br>Assets<br>Held and Used | Level 1 | Level 2 | Level 3 | Total<br>Losses |
|-------------------------------|---------------------------------------|---------|---------|---------|-----------------|
| Measured as of April 28, 2012 | \$47                                  | \$—     | \$—     | \$47    | \$46            |
| Measured as of July 28, 2012  | \$54                                  | \$—     | \$—     | \$54    | \$391           |

In accordance with the Property, Plant and Equipment Topic of the Codification, the Company recorded \$0.4 million and \$0.4 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 and six months ended July 28, 2012. These charges are reflected in asset impairments and other, net on the Condensed Consolidated Statements of Operations.

The Company used a discounted cash flow model to estimate the fair value of these long-lived assets. 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

| In thousands                   | Pension Benefits<br>Three Months Ended |                  | Other Benefits<br>Three Months Ended |                  |
|--------------------------------|--|------------------|--------------------------------------|------------------|
|                                | July 28,<br>2012                       | July 30,<br>2011 | July 28,<br>2012                     | July 30,<br>2011 |
| Service cost                   | \$88                                   | \$63             | \$89                                 | \$42             |
| Interest cost                  | 1,239                                  | 1,400            | 39                                   | 43               |
| Expected return on plan assets | (1,750                                 | ) (1,952         | ) —                                  | —                |
| Amortization:                  |  |                  |                                      |                  |
| Prior service cost             | 1                                      | 1                | —                                    | —                |
| Losses                         | 1,478                                  | 1,162            | 21                                   | 20               |
| Net amortization               | 1,479                                  | 1,163            | 21                                   | 20               |
| Net Periodic Benefit Cost      | \$1,056                                | \$674            | \$149                                | \$105            |



Genesco Inc.  
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Notes to Condensed Consolidated Financial Statements (unaudited)

Note 6  
Defined Benefit Pension Plans and Other Benefit Plans, Continued

Components of Net Periodic Benefit Cost

| In thousands                   | Pension Benefits |                  | Other Benefits   |                  |
|--------------------------------|------------------|------------------|------------------|------------------|
|                                | Six Months Ended |                  | Six Months Ended |                  |
|                                | July 28,<br>2012 | July 30,<br>2011 | July 28,<br>2012 | July 30,<br>2011 |
| Service cost                   | \$ 176           | \$ 126           | \$ 178           | \$ 84            |
| Interest cost                  | 2,483            | 2,798            | 78               | 86               |
| Expected return on plan assets | (3,504           | ) (3,904         | ) —              | —                |
| Amortization:                  |                  |                  |                  |                  |
| Prior service cost             | 2                | 2                | —                | —                |
| Losses                         | 3,076            | 2,403            | 42               | 40               |
| Net amortization               | 3,078            | 2,405            | 42               | 40               |
| Net Periodic Benefit Cost      | \$ 2,233         | \$ 1,425         | \$ 298           | \$ 210           |

There is no cash contribution required for the Plan in 2012.

Genesco Inc.  
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Notes to Condensed Consolidated Financial Statements (unaudited)

Note 7  
Earnings Per Share

| (In thousands, except<br>per share amounts)                               | For the Three Months Ended<br>July 28, 2012 |                         |                     | For the Three Months Ended<br>July 30, 2011 |                         |                     |
|---|---|-------------------------|---------------------|---|-------------------------|---------------------|
|   | Income<br>(Numerator)                       | Shares<br>(Denominator) | Per Share<br>Amount | Income<br>(Numerator)                       | Shares<br>(Denominator) | Per Share<br>Amount |
| Earnings from continuing<br>operations                                    | \$ 10,561                                   |                         |                     | \$ 350                                      |                         |                     |
| Less: Preferred stock<br>dividends  | (35 )                                       |                         |                     | (49 )                                       |                         |                     |
| Basic EPS from continuing<br>operations                                   |   |                         |                     |   |                         |                     |
| Income available to<br>common shareholders                                | 10,526                                      | 23,778                  | \$0.44              | 301   | 23,126                  | \$.01               |
| Effect of Dilutive Securities<br>from<br>continuing operations            |   |                         |                     |   |                         |                     |
| Options   |   | 297                     |                     |   | 460                     |                     |
| Convertible<br>preferred stock <sup>(1)</sup>                             | —   | —                       |                     | —   | —                       |                     |
| Employees' preferred<br>stock <sup>(2)</sup>                              |   | 48                      |                     |   | 49                      |                     |
| Diluted EPS   |   |                         |                     |   |                         |                     |
| Income available to<br>common<br>shareholders plus assumed<br>conversions | \$ 10,526                                   | 24,123                  | \$0.44              | \$ 301                                      | 23,635                  | \$.01               |

The amount of the dividend on the convertible preferred stock per common share obtainable on conversion of the convertible preferred stock was higher than basic earnings per share for all periods presented. Therefore, (1) conversion of the convertible preferred stock was not reflected in diluted earnings per share because it would have been antidilutive. The shares convertible to common stock for Series 1, 3 and 4 preferred stock would have been 13,502, 18,198 and 4,920, respectively, as of July 28, 2012.

The Company's Employees' Subordinated Convertible Preferred Stock is convertible one for one to the Company's (2) common stock. Because there are no dividends paid on this stock, these shares are assumed to be converted for the second quarter ended July 28, 2012 and July 30, 2011.



Genesco Inc.  
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Notes to Condensed Consolidated Financial Statements (unaudited)

Note 7  
Earnings Per Share, Continued

| (In thousands, except<br>per share amounts)                               | For the Six Months Ended<br>July 28, 2012 |                         |                     | For the Six Months Ended<br>July 30, 2011 |                         |                     |
|---|---|-------------------------|---------------------|---|-------------------------|---------------------|
|   | Income<br>(Numerator)                     | Shares<br>(Denominator) | Per Share<br>Amount | Income<br>(Numerator)                     | Shares<br>(Denominator) | Per Share<br>Amount |
| Earnings from continuing<br>operations                                    | \$31,352                                  |                         |                     | \$15,325                                  |                         |                     |
| Less: Preferred stock<br>dividends  | (81                                       | )                       |                     | (98                                       | )                       |                     |
| Basic EPS from<br>continuing operations                                   |   |                         |                     |   |                         |                     |
| Income available to<br>common shareholders                                | 31,271                                    | 23,687                  | \$1.32              | 15,227                                    | 23,033                  | \$0.66              |
| Effect of Dilutive<br>Securities from<br>continuing operations            |   |                         |                     |   |                         |                     |
| Options   |   | 415                     |                     |   | 506                     |                     |
| Convertible<br>preferred stock(1)   | 21  | 18                      |                     | —   | —                       |                     |
| Employees' preferred<br>stock(2)  |   | 48                      |                     |   | 49                      |                     |
| Diluted EPS   |   |                         |                     |   |                         |                     |
| Income available to<br>common<br>shareholders plus assumed<br>conversions | \$31,292                                  | 24,168                  | \$1.29              | \$15,227                                  | 23,588                  | \$0.65              |

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 six months ended July 28, 2012. Therefore, conversion of Series 3 preferred shares was included in diluted earnings per share for the six months ended July 28, 2012. 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 six months ended July 28, 2012 and for all preferred stocks for the six months ended July 30, 2011. Therefore, conversion of the Series 1 and 4 convertible preferred stocks for the six months ended July 28, 2012 and all preferred stocks for the six months ended July 30, 2011 were not reflected in diluted earnings per share because it would have been antidilutive. The shares convertible to common stock for Series 1, 3 and 4 preferred stock would have been 13,502, 18,198 and 4,920, respectively, as of July 28, 2012.

(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 six months ended July 28, 2012 and July 30, 2011.

The Company repurchased 346,398 shares during the six months ended July 28, 2012 for \$20.8 million of which \$0.6 million was not paid in the second quarter but included in other accrued liabilities in the Condensed Consolidated Balance Sheets. The Company did not repurchase any shares during the six months ended July 30, 2011.

Genesco Inc.  
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Notes to Condensed Consolidated Financial Statements (unaudited)

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 million 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 cost 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.

The Village of Garden City, New York, has additionally 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, undiscounted, 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



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Notes to Condensed Consolidated Financial Statements (unaudited)

Note 8  
Legal Proceedings, Continued

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.

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 Work Plan's implementation is substantially complete and the Company expects, based on its present understanding of the condition of the site, that its future obligations with respect to the site will be limited to periodic monitoring and that future costs related to the site should not have a material effect on its financial condition or results of operations.

Accrual for Environmental Contingencies

Related to all outstanding environmental contingencies, the Company had accrued \$12.3 million as of July 28, 2012, \$13.0 million as of January 28, 2012 and \$14.2 million as of July 30, 2011. 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 because it relates to former facilities operated by the Company. The Company has made pretax accruals for certain of these contingencies, including approximately \$0.1 million and \$1.2 million reflected in the second quarter of Fiscal 2013 and 2012, respectively, and \$0.4 million and \$1.6 million reflected in the first six months of Fiscal 2013 and 2012, respectively. These charges are included in provision for discontinued operations, net in the Condensed Consolidated Statements of Operations and represent changes in estimates.

California Action

On March 3, 2011, there was filed in the U.S. District Court for the Eastern 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.* The Pabst action was removed to the U.S. District Court for the Northern District of California on April 1, 2011. 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 and plaintiffs' counsel have reached an agreement to settle both actions. The court approved the settlement on August 24, 2012. The Company expects that the settlement will not have a material effect on its financial condition or results of operations.



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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. and MasterCard Worldwide have asserted claims against the Company's acquiring banks totaling approximately \$15.4 million in connection with the intrusion, which amounts may be indemnifiable by the Company. The Company disputes the validity of these claims and intends to contest them vigorously and thus has no accrual. There can be no assurance that additional claims related to the intrusion will not be asserted by these or other parties in the future, but the Company does not currently expect any potential additional claims to have a material effect on its financial condition or results of operations.

On January 5, 2012, a patent infringement action against the Company and numerous other defendants was filed in the U.S. District Court for the Eastern District of Texas, GeoTag, Inc. v. Circle K Store, Inc., et al., alleging that features of certain of the Company's e-commerce websites infringe U.S. Patent No. 5,930,474, entitled "Internet Organizer for Accessing Geographically and Topically Based Information." The plaintiff seeks relief including damages for the alleged infringement, costs, expenses and pre- and post-judgment interest and injunctive relief. The Company disputes the validity of the claim and intends to defend the matter and thus has no accrual.

On May 14, 2012, a putative class and collective action, Maro v. Hat World, Inc., was filed in the U.S. District Court for the Northern District of Illinois. The action alleges that the Company failed to pay the plaintiff and other, similarly situated retail store employees of Hat World, Inc., for time spent making bank deposits of store collections, and seeks to recover unpaid wages, liquidated damages, statutory penalties, attorneys fees, and costs pursuant to the federal Fair Labor Standards Act, the Illinois Minimum Wage Law and the Illinois Wage Payment and Collection Act. On July 16, 2012 and July 30, 2012, additional putative class and collective actions, Chavez v. Hat World, Inc. and Dismukes v. Hat World, Inc., were filed in the same court, alleging that certain Hat World employees were misclassified as exempt from overtime pay, and seeking similar relief. The Chavez and Dismukes actions have been consolidated. The Company disputes the material allegations in these complaints and intends to defend the matters and thus has no accrual.

In addition to the matters specifically described in this Note, 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.

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Note 9  
Business Segment Information

During the six months ended July 28, 2012, the Company operated five reportable business segments (not including corporate): (i) Journeys Group, comprised of the Journeys, Journeys Kidz, Shi by Journeys and Underground by Journeys retail footwear chains, catalog and e-commerce operations; (ii) Schuh Group, acquired in June 2011, comprised of the Schuh retail footwear chain and e-commerce operations; (iii) 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; (iv) Johnston & Murphy Group, comprised of Johnston & Murphy retail operations, catalog and e-commerce operations and wholesale distribution; and (v) Licensed Brands, comprised of Dockers® Footwear, sourced and marketed under a license from Levi Strauss & Company, SureGrip® Footwear and other brands.

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 management's organization of the segments in order to make operating decisions and assess performance along types of products sold. Journeys Group, Schuh 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. As a result of combining the Underground Station Group with Journeys Group in the first quarter of Fiscal 2013, Journeys Group segment sales, operating income, total assets, depreciation and amortization and capital expenditures have been restated for the three months and six months ended July 30, 2011 to conform to the current year presentation.

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, asset impairment charges and other, including major litigation.

Genesco Inc.  
and Consolidated Subsidiaries  
Notes to Condensed Consolidated Financial Statements (unaudited)

## Note 9

## Business Segment Information, Continued

## Three Months Ended

July 28, 2012

| In thousands   | Journeys Group | Schuh Group | Lids Sports Group | Johnston & Murphy Group | Licensed Brands | Corporate & Other | Consolidated |
|--|----------------|-------------|-------------------|-------------------------|-----------------|-------------------|--------------|
| Sales  | \$209,439      | \$81,156    | \$182,598         | \$48,286                | \$22,307        | \$513             | \$544,299    |
| Intercompany Sales   | —              | —           | (719 )            | (7 )                    | (51 )           | —                 | (777 )       |
| Net sales to external customers                                | \$209,439      | \$81,156    | \$181,879         | \$48,279                | \$22,256        | \$513             | \$543,522    |
| Segment operating income (loss)                                | \$2,065        | \$(545 )    | \$20,571          | \$1,814                 | \$1,427         | \$(7,973 )        | \$17,359     |
| Asset Impairments and other*                                   | —              | —           | —                 | —                       | —               | (404 )            | (404 )       |
| Earnings (loss) from operations                                | 2,065          | (545 )      | 20,571            | 1,814                   | 1,427           | (8,377 )          | 16,955       |
| Interest expense   | —              | —           | —                 | —                       | —               | (1,217 )          | (1,217 )     |
| Interest income  | —              | —           | —                 | —                       | —               | 10                | 10           |
| Earnings (loss) from continuing operations before income taxes | \$2,065        | \$(545 )    | \$20,571          | \$1,814                 | \$1,427         | \$(9,584 )        | \$15,748     |
| Total assets**   | \$336,788      | \$221,257   | \$527,555         | \$84,353                | \$32,906        | \$178,099         | \$1,380,958  |
| Depreciation and amortization                                  | 4,987          | 2,531       | 6,198             | 918                     | 82              | 575               | 15,291       |
| Capital expenditures   | 4,656          | 5,322       | 5,271             | 1,704                   | 527             | 935               | 18,415       |

\*Asset Impairments and other includes a \$0.4 million charge for asset impairments, of which \$0.3 million is in the Lids Sports Group and \$0.1 million is in the Journeys Group.

\*\*Total assets for the Lids Sports Group, Schuh Group and Licensed Brands include \$168.5 million, \$100.0 million and \$0.8 million of goodwill, respectively.

## Three Months Ended

July 30, 2011

| In thousands                    | Journeys Group | Schuh Group | Lids Sports Group | Johnston & Murphy Group | Licensed Brands | Corporate & Other | Consolidated |
|---------------------------------|----------------|-------------|-------------------|-------------------------|-----------------|-------------------|--------------|
| Sales                           | \$194,693      | \$33,973    | \$177,556         | \$45,571                | \$18,627        | \$313             | \$470,733    |
| Intercompany Sales              | —              | —           | (33 )             | —                       | (109 )          | —                 | (142 )       |
| Net sales to external customers | \$194,693      | \$33,973    | \$177,523         | \$45,571                | \$18,518        | \$313             | \$470,591    |
| Segment operating income (loss) | \$(3,875 )     | \$(77 )     | \$18,106          | \$2,155                 | \$994           | \$(15,305 )       | \$1,998      |
| Asset Impairments and other*    | —              | —           | —                 | —                       | —               | (347 )            | (347 )       |
| Earnings (loss) from operations | (3,875 )       | (77 )       | 18,106            | 2,155                   | 994             | (15,652 )         | 1,651        |



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|  |            |         |           |          |          |             |             |
|--|------------|---------|-----------|----------|----------|-------------|-------------|
| Interest expense   | —          | —       | —         | —        | —        | (1,097 )    | (1,097 )    |
| Interest income  | —          | —       | —         | —        | —        | 16          | 16          |
| Earnings (loss) from continuing operations before income taxes | \$(3,875 ) | \$(77 ) | \$18,106  | \$2,155  | \$994    | \$(16,733 ) | \$570       |
| Total assets**   | \$307,796  | 214,650 | \$478,455 | \$77,038 | \$31,963 | \$168,674   | \$1,278,576 |
| Depreciation and amortization                                  | 5,157      | 936     | 5,409     | 877      | 67       | 556         | 13,002      |
| Capital expenditures   | 3,202      | 982     | 7,115     | 758      | 271      | 1,288       | 13,616      |

\*Asset Impairments and other includes a \$0.4 million charge for asset impairments, of which \$0.2 million is in the Journeys Group and \$0.2 million is in the Lids Sports Group.

\*\*Total assets for the Lids Sports Group, Schuh Group and Licensed Brands include \$155.4 million, \$104.2 million and \$0.8 million of goodwill.

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Genesco Inc.  
and Consolidated Subsidiaries  
Notes to Condensed Consolidated Financial Statements (unaudited)

Note 9

Business Segment Information, Continued

Six Months Ended

July 28, 2012

| In thousands   | Journeys Group | Schuh Group | Lids Sports Group | Johnston & Murphy Group | Licensed Brands | Corporate & Other | Consolidated |
|--|----------------|-------------|-------------------|-------------------------|-----------------|-------------------|--------------|
| Sales  | \$473,279      | \$151,468   | \$365,973         | \$99,699                | \$53,650        | \$690             | \$1,144,759  |
| Intercompany Sales   | —              | —           | (958 )            | (7 )                    | (128 )          | —                 | (1,093 )     |
| Net sales to external customers                                | \$473,279      | \$151,468   | \$365,015         | \$99,692                | \$53,522        | \$690             | \$1,143,666  |
| Segment operating income (loss)                                | \$27,347       | \$(3,496 )  | \$39,739          | \$5,823                 | \$4,792         | \$(20,704 )       | \$53,501     |
| Asset Impairments and other*                                   | —              | —           | —                 | —                       | —               | (539 )            | (539 )       |
| Earnings (loss) from operations                                | 27,347         | (3,496 )    | 39,739            | 5,823                   | 4,792           | (21,243 )         | 52,962       |
| Interest expense   | —              | —           | —                 | —                       | —               | (2,349 )          | (2,349 )     |
| Interest income  | —              | —           | —                 | —                       | —               | 25                | 25           |
| Earnings (loss) from continuing operations before income taxes | \$27,347       | \$(3,496 )  | \$39,739          | \$5,823                 | \$4,792         | \$(23,567 )       | \$50,638     |
| Total assets**   | \$336,788      | \$221,257   | \$527,555         | \$84,353                | \$32,906        | \$178,099         | \$1,380,958  |
| Depreciation and amortization                                  | 9,957          | 4,773       | 12,707            | 1,811                   | 158             | 1,138             | 30,544       |
| Capital expenditures   | 8,815          | 7,895       | 9,772             | 3,575                   | 582             | 1,894             | 32,533       |

\*Asset Impairments and other includes a \$0.4 million charge for asset impairments, of which \$0.3 million is in the Lids Sports Group and \$0.1 million is in the Journeys Group, and \$0.1 million of network intrusion costs.

\*\*Total assets for the Lids Sports Group, Schuh Group and Licensed Brands include \$168.5 million, \$100.0 million and \$0.8 million of goodwill, respectively.

Six Months Ended

July 30, 2011

| In thousands                    | Journeys Group | Schuh Group | Lids Sports Group | Johnston & Murphy Group | Licensed Brands | Corporate & Other | Consolidated |
|---------------------------------|----------------|-------------|-------------------|-------------------------|-----------------|-------------------|--------------|
| Sales                           | \$429,210      | 33,973      | \$347,258         | \$93,622                | \$47,643        | \$621             | \$952,327    |
| Intercompany Sales              | —              | —           | (59 )             | —                       | (175 )          | —                 | (234 )       |
| Net sales to external customers | \$429,210      | \$33,973    | \$347,199         | \$93,622                | \$47,468        | \$621             | \$952,093    |
| Segment operating income (loss) | \$13,583       | \$(77 )     | \$32,110          | \$5,050                 | \$4,298         | \$(26,197 )       | \$28,767     |
| Asset Impairments and other*    | —              | —           | —                 | —                       | —               | (1,591 )          | (1,591 )     |
| Earnings (loss) from operations | 13,583         | (77 )       | 32,110            | 5,050                   | 4,298           | (27,788 )         | 27,176       |

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|  |           |         |           |          |          |             |             |
|--|-----------|---------|-----------|----------|----------|-------------|-------------|
| Interest expense   | —         | —       | —         | —        | —        | (1,613 )    | (1,613 )    |
| Interest income  | —         | —       | —         | —        | —        | 18          | 18          |
| Earnings (loss) from continuing operations before income taxes | \$13,583  | \$(77 ) | \$32,110  | \$5,050  | \$4,298  | \$(29,383 ) | \$25,581    |
| Total assets**   | \$307,796 | 214,650 | \$478,455 | \$77,038 | \$31,963 | \$168,674   | \$1,278,576 |
| Depreciation and amortization                                  | 10,439    | 936     | 10,857    | 1,774    | 133      | 1,065       | 25,204      |
| Capital expenditures   | 5,275     | 982     | 13,529    | 1,165    | 475      | 1,787       | 23,213      |

\*Asset Impairments and other includes a \$1.1 million charge for asset impairments, of which \$0.6 million is in the Journeys Group, \$0.3 million is in the Lids Sports Group and \$0.2 million is in the Johnston & Murphy Group.

\*\*Total assets for the Lids Sports Group, Schuh Group and Licensed Brands include \$155.4 million, \$104.2 million and \$0.8 million of goodwill.

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

Forward Looking Statements

This discussion and the notes to the Condensed Consolidated Financial Statements include certain forward-looking statements, including those regarding the performance outlook for the Company and its individual businesses and all other statements not addressing solely historical facts or present conditions. Actual results could differ materially from those reflected by the forward-looking statements in this discussion, in the notes to the Condensed Consolidated Financial Statements, and in other disclosures, including those regarding the Company's performance outlook for Fiscal 2013 and beyond.

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:

Adjustments to estimates reflected in forward-looking statements, including the amount of required accruals related to the contingent bonus potentially payable to Schuh management in three years based on the achievement of certain performance objectives.

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 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 and operating results.

The Company's ability to continue to complete and integrate acquisitions, expand its business and diversify its product base.

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 expected 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.

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### 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<sup>®</sup>, Journeys Kidz<sup>®</sup>, Shi by Journeys<sup>®</sup>, Underground by Journeys<sup>®</sup> and Johnston & Murphy<sup>®</sup> in the U.S., Puerto Rico and Canada and through Schuh<sup>®</sup> stores in the United Kingdom and the Republic of Ireland, and through e-commerce websites, and at wholesale, primarily under the Company's Johnston & Murphy<sup>®</sup> brand, Dockers<sup>®</sup> brand, SureGrip<sup>®</sup> brand and other brands that the Company licenses for men's footwear. The Company's wholesale footwear brands are distributed to more than 1,000 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 (i) headwear and accessory stores under the Lids<sup>®</sup> name and other names in the U.S., Puerto Rico and Canada, (ii) 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, (iii) the Lids Clubhouse business, consisting of single team fan shops, (iv) e-commerce business and (v) an athletic team dealer business operating as Lids Team Sports. Including both the footwear businesses and the Lids Sports business, at July 28, 2012, the Company operated 2,404 retail stores in the U.S., Puerto Rico, Canada, the United Kingdom and the Republic of Ireland.

During the six months ended July 28, 2012, the Company operated five reportable business segments (not including corporate): (i) Journeys Group, comprised of the Journeys, Journeys Kidz, Shi by Journeys and Underground by Journeys retail footwear chains, catalog and e-commerce operations; (ii) Schuh Group, acquired in June 2011, comprised of the Schuh retail footwear chain and e-commerce operations; (iii) Lids Sports Group, comprised as described in the preceding paragraph; (iv) Johnston & Murphy Group, comprised of Johnston & Murphy retail operations, catalog and e-commerce operations and wholesale distribution; and (v) Licensed Brands, comprised of Dockers<sup>®</sup> Footwear, sourced and marketed under a license from Levi Strauss & Company, SureGrip<sup>®</sup> Footwear and other brands.

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 2,125 square feet. The Underground by Journeys retail footwear stores sell footwear and accessories primarily for men and women in the 20 to 35 age group. These stores average approximately 1,825 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 direct-to-consumer catalog and e-commerce operations.

The Schuh retail footwear stores sell a broad range of branded casual and athletic footwear along with a meaningful private label offering primarily for 15 to 30 year old men and women. The stores, which average approximately 4,525 square feet, include both street-level and mall locations in the United Kingdom and the Republic of Ireland. The Schuh Group also operates 14 footwear concessions in Republic apparel stores in the United Kingdom averaging approximately 1,200 square feet, and sells footwear through e-commerce operations.

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 850 square feet and are primarily in malls, airports, street-level stores and

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factory outlet centers throughout the United States, Puerto Rico and Canada. The Lids Sports Group also operates Lids Locker Room and Lids Clubhouse stores under a number of trade names, selling licensed sports headwear, apparel and accessories to sports fans of all ages in locations averaging approximately 3,000 square feet in malls and other locations primarily in 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. Women's footwear and accessories are sold in select Johnston & Murphy retail locations. Johnston & Murphy shops average approximately 1,525 square feet and are located primarily in better malls and in airports throughout the United States. Johnston & Murphy opened its first store in Canada during the fourth quarter of Fiscal 2012. The Company also has license and distribution agreements for wholesale and retail sales of Johnston & Murphy products in various non - U.S. jurisdictions. The Company also 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. In addition, Johnston & Murphy shoes are also distributed through the Company's wholesale operations to better department and independent specialty stores.

The Licensed Brands segment markets casual and dress casual footwear under the licensed Dockers® brand 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. 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 certain other Latin American countries. The Dockers license agreement was renewed July 23, 2012 for a term expiring November 30, 2015, subject to extension for an additional 3-year term if certain conditions are met. The Company acquired SureGrip® Footwear as part of its Keuka Footwear acquisition in the third quarter of Fiscal 2011. The Company sources and distributes this slip-resistant, occupational footwear to employees in the hospitality, healthcare, and other industries.

## Strategy

The Company's long-term strategy 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. 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 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. The pace of the Company's organic growth may be limited by saturation of its markets and by economic conditions. To address potential saturation of the U.S. market, certain of the Company's retail businesses have opened retail stores in Canada, beginning in Fiscal 2011.

To further supplement its organic growth potential, the Company has made acquisitions, including the acquisition of the Schuh Group in June 2011 and several smaller acquisitions of businesses in the Lids Sports Group's markets, 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.



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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 relatively high level of current unemployment and any future economic contraction, 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 changes in consumer demand.

### Summary of Results of Operations

The Company's net sales increased 15.5% during the second quarter of Fiscal 2013 compared to the same quarter of Fiscal 2012. The increase reflected (i) the acquisition of the Schuh Group in the second quarter last year, which contributed \$81.2 million in sales during the three months ended July 28, 2012 as compared to \$34.0 million during the second quarter of Fiscal 2012, (ii) an 8% increase in Journeys Group sales, (iii) a 2% increase in Lids Sports Group sales, (iv) a 6% increase in Johnston & Murphy Group sales, and (v) a 20% increase in Licensed Brands sales. Gross margin as a percentage of sales was up slightly at 50.5% during the second quarter of Fiscal 2013, compared to 50.4% for the same period last year. Selling and administrative expenses decreased as a percentage of net sales during the second quarter of Fiscal 2013, reflecting expense decreases as a percentage of net sales in all of the Company's business segments, except Schuh Group. In addition, selling and administrative expenses decreased as a percentage of sales due to the inclusion in last year of \$6.4 million of acquisition related costs. Earnings from operations increased as a percentage of net sales during the second quarter of Fiscal 2013, reflecting improved earnings from operations as a percentage of net sales in all the Company's business segments operated, except Johnston & Murphy Group and Schuh Group, and the inclusion of acquisition related costs in the second quarter of Fiscal 2012.

### Significant Developments

#### Schuh Acquisition

On June 23, 2011, the Company, through its newly-formed, wholly-owned subsidiary Genesco (UK) Limited (“Genesco UK”), completed the acquisition of all the outstanding shares of Schuh Group Ltd. (“Schuh”) for a total purchase price of approximately £100 million, less £29.5 million outstanding under existing Schuh credit facilities, which remain in place, less a £1.9 million working capital adjustment and plus £6.2 million net cash acquired, with £5.0 million withheld and payable in June 2013. The Company financed the acquisition with borrowings under its existing credit facility and the balance from cash on hand. The purchase agreement also provides for deferred purchase price payments totaling £25 million, payable £15 million and £10 million on the third and fourth anniversaries of the closing, respectively, subject to the payees’ not having terminated their employment with Schuh under certain specified circumstances. This amount will be recorded as compensation expense and not reported as a component of the cost of the acquisition.



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Headquartered in Scotland, Schuh is a specialty retailer of casual and athletic footwear sold through 69 retail stores in the United Kingdom and the Republic of Ireland and 14 concessions in Republic apparel stores as of July 28, 2012. The Company completed the acquisition in order to enhance its strategic development and prospects for growth and provide the Company with an established retail presence in the United Kingdom and improved insight into global fashion trends. The results of Schuh's operations for the three months ended July 28, 2012 include net sales of \$81.2 million and an operating loss of \$(0.5) million, and for the six months ended July 28, 2012 include net sales of \$151.5 million and an operating loss of \$(3.5) million, and have been included in the Company's Condensed Consolidated Financial Statements for the three months and six months ended July 28, 2012. During the three months and six months ended July 28, 2012, compensation expense related to the Schuh acquisition deferred purchase price obligation was \$2.9 million and \$5.9 million, respectively. This expense is included in the operating loss for the Schuh Group segment.

### 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. and MasterCard Worldwide have asserted claims against the Company's acquiring banks totaling approximately \$15.4 million in connection with the intrusion, which amounts may be indemnifiable by the Company. The Company disputes the validity of these claims and intends to contest them vigorously and thus has no accrual. There can be no assurance that additional claims related to the intrusion will not be asserted by these or other parties in the future, but the Company does not currently expect any potential additional claims to have a material effect on its financial condition or results of operations.

### Asset Impairment and Other Charges

The Company recorded a pretax charge to earnings of \$0.4 million in the second quarter of Fiscal 2013, primarily for retail store asset impairments. The Company recorded a pretax charge to earnings of \$0.5 million in the first six months of Fiscal 2013, including \$0.4 million for retail store asset impairments and \$0.1 million for network intrusion expenses.

The Company recorded a pretax charge to earnings of \$0.3 million in the second quarter of Fiscal 2012, primarily for retail store asset impairments. The Company recorded a pretax charge to earnings of \$1.6 million in the first six months of Fiscal 2012, including \$1.1 million for retail store asset impairments, \$0.4 million for network intrusion expenses and \$0.1 million for other legal matters.

### 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 - Second Quarter Fiscal 2013 Compared to Fiscal 2012

The Company's net sales in the second quarter ended July 28, 2012 increased 15.5% to \$543.5 million from \$470.6 million in the second quarter ended July 30, 2011. Gross margin increased 15.6% to \$274.2 million in the second quarter this year from \$237.3 million in the same period last year and increased as a percentage of net sales from 50.4% to 50.5%. Selling and administrative expenses in the second quarter this year increased 9.2% from the second quarter last year but decreased as a percentage of net sales from 50.0% to 47.3%. The Company records buying and merchandising and occupancy costs in selling and administrative



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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 second quarter ended July 28, 2012 were \$15.7 million compared to \$0.6 million for the second quarter ended July 30, 2011. Pretax earnings for the second quarter ended July 28, 2012 included asset impairment and other charges of \$0.4 million primarily for retail store asset impairments. Pretax earnings for the second quarter ended July 28, 2012 also included \$2.9 million in expense related to the deferred purchase price obligation related to the Schuh acquisition. Because the deferred purchase price for Schuh is contingent on the payees' continuing employment with Schuh (subject to certain exceptions), U.S. Generally Accepted Accounting Principles require that it be expensed as compensation across the period until payment is due. Pretax earnings for the second quarter ended July 30, 2011 included asset impairment and other charges of \$0.4 million, primarily for retail store asset impairments. Pretax earnings for the second quarter July 30, 2011 also included \$6.4 million in costs related to the Schuh acquisition and \$1.4 million in expenses related to the deferred purchase price obligation related to the Schuh acquisition.

Net earnings for the second quarter ended July 28, 2012 were \$10.5 million (\$0.43 diluted earnings per share) compared to a net loss of \$(0.4) million (\$0.02 diluted loss per share) for the second quarter ended July 30, 2011. The net loss for the second quarter ended July 30, 2011 included \$0.7 million (\$0.03 diluted loss per share) charge to earnings (net of tax) primarily for anticipated costs of environmental remediation related to facilities formerly operated by the Company. The Company recorded an effective income tax rate of 32.9% in the second quarter this year compared to 38.6% in the same period last year. This year's tax rate is lower due to a tax rate reduction in the UK and increases in certain state tax credits.

## Journeys Group

|                                 | Three Months Ended     |                  |     | % Change |
|---------------------------------|------------------------|------------------|-----|----------|
|                                 | July 28,<br>2012       | July 30,<br>2011 |     |          |
|                                 | (dollars in thousands) |                  |     |          |
| Net sales                       | \$ 209,439             | \$ 194,693       | 7.6 | %        |
| Earnings (loss) from operations | \$ 2,065               | \$ (3,875)       | )   | NM       |
| Operating margin                | 1.0                    | % (2.0)          | )   | %        |

Net sales from Journeys Group increased 7.6% to \$209.4 million for the second quarter ended July 28, 2012 compared to \$194.7 million for the same period last year. The increase reflects primarily a 6% increase in comparable store sales. The comparable store sales increase reflected an 8% increase in average price per pair of shoes, reflecting changes in pricing, product mix and lower markdowns, and a 3% decrease in unit sales. Journeys Group operated 1,147 stores at the end of the second quarter of Fiscal 2013, including 152 Journeys Kidz stores, 52 Shi by Journeys stores, 133 Underground by Journeys stores and 20 Journeys stores in Canada, compared to 1,154 stores at the end of the second quarter last year, including 152 Journeys Kidz stores, 54 Shi by Journeys stores, 141 Underground by Journeys stores and six Journeys stores in Canada.

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Journeys Group earnings from operations for the second quarter ended July 28, 2012 increased to \$2.1 million compared to a loss of \$(3.9) million for the second quarter ended July 30, 2011. The increase was due to increased net sales, increased gross margin as a percentage of sales, reflecting lower markdowns, and to decreased expenses as a percentage of net sales, reflecting leveraging of store related costs including occupancy costs and depreciation.

## Schuh Group

|                      | Three Months Ended     |                  | %<br>Change |
|----------------------|------------------------|------------------|-------------|
|                      | July 28,<br>2012       | July 30,<br>2011 |             |
|                      | (dollars in thousands) |                  |             |
| Net sales            | \$ 81,156              | \$ 33,973        | NM          |
| Loss from operations | \$(545 )               | \$(77 )          | NM          |
| Operating margin     | (0.7 )%                | (0.2 )%          |             |

Net sales from the Schuh Group were \$81.2 million for the second quarter ended July 28, 2012, compared to \$34.0 million for the second quarter ended July 30, 2011. Net sales for Schuh Group in last year's second quarter include sales for approximately six weeks since the Company acquired Schuh on June 23, 2011. Comparable store sales for Schuh Group were 9% for one month ended July 28, 2012, the first month it was eligible for inclusion in the Company's comparable store numbers. Schuh Group operated 69 stores and 14 concessions at the end of the second quarter of Fiscal 2013, compared to 59 stores and 16 concessions at the end of the second quarter of Fiscal 2012.

Schuh Group loss from operations was \$(0.5) million for the second quarter ended July 28, 2012, compared to \$(0.1) million for the second quarter ended July 30, 2011. The loss included \$2.9 million and \$1.4 million in compensation expense related to a deferred purchase price obligation in connection with the acquisition for the second quarter of Fiscal 2013 and 2012, respectively. The loss also includes \$2.8 million and \$0.3 million related to accruals for a contingent bonus payment for Schuh employees provided for in the Schuh acquisition for the second quarter of Fiscal 2013 and 2012, respectively. See Note 2 to the Condensed Consolidated Financial Statements for additional information related to the Schuh acquisition.

## Lids Sports Group

|                          | Three Months Ended     |                  | %<br>Change |
|--------------------------|------------------------|------------------|-------------|
|                          | July 28,<br>2012       | July 30,<br>2011 |             |
|                          | (dollars in thousands) |                  |             |
| Net sales                | \$ 181,879             | \$ 177,523       | 2.5 %       |
| Earnings from operations | \$ 20,571              | \$ 18,106        | 13.6 %      |
| Operating margin         | 11.3                   | % 10.2           | %           |

Net sales from Lids Sports Group increased 2.5% to \$181.9 million for the second quarter ended July 28, 2012 compared to \$177.5 million for the same period last year, reflecting primarily a 2% increase in comparable store sales and a 2% increase in average Lids 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

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divided by four). The comparable store sales increase reflected a 1% increase in comparable store units sold, primarily reflecting demand which management believes is driven by style trends. The average price per hat was flat for the second quarter this year. Lids Sports Group operated 1,021 stores at the end of the second quarter of Fiscal 2013, including 90 Lids stores in Canada and 122 Lids Locker Room and Clubhouse stores, compared to 994 stores at the end of the second quarter last year, including 80 Lids stores in Canada and 110 Lids Locker Room and Clubhouse stores.

Lids Sports Group earnings from operations for the second quarter ended July 28, 2012 increased 13.6% to \$20.6 million compared to \$18.1 million for the second quarter ended July 30, 2011. The increase was due to increased headwear sales, increased gross margin as a percentage of net sales due to increased weighting of retail and to decreased expenses as a percentage of net sales, reflecting leverage, primarily of bad debt expense and bonus compensation.

## Johnston &amp; Murphy Group

|                          | Three Months Ended     |                  |       | %<br>Change |
|--------------------------|------------------------|------------------|-------|-------------|
|                          | July 28,<br>2012       | July 30,<br>2011 |       |             |
|                          | (dollars in thousands) |                  |       |             |
| Net sales                | \$48,279               | \$45,571         | 5.9   | %           |
| Earnings from operations | \$1,814                | \$2,155          | (15.8 | )%          |
| Operating margin         | 3.8                    | % 4.7            | %     |             |

Johnston & Murphy Group net sales increased 5.9% to \$48.3 million for the second quarter ended July 28, 2012 from \$45.6 million for the second quarter ended July 30, 2011, reflecting primarily a 2% increase in comparable store sales and an 18% 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 18% in the second quarter of Fiscal 2013 while the average price per pair of shoes was flat for the same period. Retail operations accounted for 71.6% of Johnston & Murphy Group segment sales in the second quarter this year, down from 74.4% in the second quarter last year. The comparable store sales increase in the second quarter ended July 28, 2012 reflects a 3% increase in average price per pair of shoes for Johnston & Murphy retail operations while footwear unit comparable sales were flat. The store count for Johnston & Murphy retail operations at the end of the second quarter of Fiscal 2013 included 153 Johnston & Murphy shops and factory stores compared to 157 Johnston & Murphy shops and factory stores at the end of the second quarter of Fiscal 2012.

Johnston & Murphy Group earnings from operations for the second quarter ended July 28, 2012 decreased 15.8% to \$1.8 million compared to \$2.2 million for the same period last year, primarily due to decreased gross margin as a percentage of net sales, due primarily to a change in sales mix and increased off price sales.



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## Licensed Brands

|                          | Three Months Ended     |                  |             |   |
|--------------------------|------------------------|------------------|-------------|---|
|                          | July 28,<br>2012       | July 30,<br>2011 | %<br>Change |   |
|                          | (dollars in thousands) |                  |             |   |
| Net sales                | \$ 22,256              | \$ 18,518        | 20.2        | % |
| Earnings from operations | \$ 1,427               | \$ 994           | 43.6        | % |
| Operating margin         | 6.4                    | % 5.4            | %           |   |

Licensed Brands' net sales increased 20.2% to \$22.3 million for the second quarter ended July 28, 2012, from \$18.5 million for the second quarter ended July 30, 2011. The sales increase reflects primarily \$2.2 million of increased sales from Dockers Footwear as well as sales increases in SureGrip Footwear and the Chaps line of footwear. Unit sales for Dockers Footwear increased 9% for the second quarter this year and the average price per pair of Dockers shoes increased 4% compared to the same period last year.

Licensed Brands' earnings from operations for the second quarter ended July 28, 2012 increased 43.6% to \$1.4 million compared to \$1.0 million for the same period last year. The increase in earnings from operations was due to increased net sales and decreased expenses as a percentage of net sales.

## Corporate, Interest Expenses and Other Charges

Corporate and other expense for the second quarter ended July 28, 2012 was \$8.4 million compared to \$15.7 million for the second quarter ended July 30, 2011. Corporate expense in the second quarter this year included \$0.4 million in asset impairment and other charges, primarily for retail store asset impairments. Last year's expense in the second quarter included \$0.4 million in asset impairment and other charges, primarily for retail store asset impairments, and \$6.4 million in acquisition related expenses. Excluding the charges listed above, corporate and other expense decreased primarily due to decreased bonus accruals.

Interest expense increased from \$1.1 million in the second quarter ended July 30, 2011 to \$1.2 million for the second quarter ended July 28, 2012.

## Results of Operations - Six Months Fiscal 2013 Compared to Fiscal 2012

The Company's net sales in the six months ended July 28, 2012 increased 20.1% to \$1.144 billion from \$952.1 million in the six months ended July 30, 2011. Gross margin increased 20.4% to \$583.5 million in the six months this year from \$484.8 million in the same period last year and increased as a percentage of net sales from 50.9% to 51.0%. Selling and administrative expenses in the six months this year increased 16.2% from the six months last year but decreased as a percentage of net sales from 47.9% to 46.3%. 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 six months ended July 28, 2012 were \$50.6 million compared to \$25.6 million for the six months ended July 30, 2011. Pretax earnings for the six months ended July 28, 2012 included asset impairment and other charges of \$0.5 million primarily for retail store asset impairments and network intrusion costs. Pretax earnings for the six months ended July 28, 2012 also included \$5.9 million in expense related to the deferred purchase price obligation





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related to the Schuh acquisition. Pretax earnings for the six months ended July 30, 2011 included asset impairment and other charges of \$1.6 million, primarily for retail store asset impairments, network intrusion costs and other legal matters. Pretax earnings for the six months ended July 30, 2011 also included \$7.2 million in costs related to the Schuh acquisition and \$1.4 million in expenses related to the deferred purchase price obligation related to the Schuh acquisition.

Net earnings for the six months ended July 28, 2012 were \$31.1 million (\$1.29 diluted earnings per share) compared to net earnings of \$14.4 million (\$0.61 diluted earnings per share) for the six months ended July 30, 2011. Net earnings for the six months ended July 30, 2011 included a \$0.9 million (\$0.04 diluted loss per share) charge to earnings (net of tax) primarily for anticipated costs of environmental remediation related to facilities formerly operated by the Company. The Company recorded an effective income tax rate of 38.1% in the first six months this year compared to 40.1% in the same period last year. This year's tax rate is lower due to a tax rate reduction in the UK and increases in certain state tax credits.

## Journeys Group

|                          | Six Months Ended       |                  |       | %<br>Change |
|--------------------------|------------------------|------------------|-------|-------------|
|                          | July 28,<br>2012       | July 30,<br>2011 |       |             |
|                          | (dollars in thousands) |                  |       |             |
| Net sales                | \$ 473,279             | \$ 429,210       | 10.3  | %           |
| Earnings from operations | \$ 27,347              | \$ 13,583        | 101.3 | %           |
| Operating margin         | 5.8                    | % 3.2            |       | %           |

Net sales from Journeys Group increased 10.3% to \$473.3 million for the six months ended July 28, 2012 compared to \$429.2 million for the same period last year. The increase reflects primarily a 9% increase in comparable store sales. The comparable store sales increase reflected an 8% increase in average price per pair of shoes, reflecting changes in pricing, product mix and lower markdowns, while footwear unit comparable sales were flat. Unit sales increased 1% during the same period.

Journeys Group earnings from operations for the six months ended July 28, 2012 increased 101.3% to \$27.3 million compared to \$13.6 million for the six months ended July 30, 2011. The increase was due to increased net sales, increased gross margin as a percentage of sales, reflecting lower markdowns, and to decreased expenses as a percentage of net sales, reflecting leveraging of store related costs including occupancy costs and depreciation.

## Schuh Group

|                      | Six Months Ended       |                  |    | %<br>Change |
|----------------------|------------------------|------------------|----|-------------|
|                      | July 28,<br>2012       | July 30,<br>2011 |    |             |
|                      | (dollars in thousands) |                  |    |             |
| Net sales            | \$ 151,468             | \$ 33,973        | NM |             |
| Loss from operations | \$(3,496)              | \$(77)           | NM |             |
| Operating margin     | (2.3)                  | )% (0.2          |    | )%          |

Net sales from the Schuh Group were \$151.5 million for the six months ended July 28, 2012, compared to \$34.0 million for the six months ended July 30, 2011. Net sales for Schuh Group in last year's six months include sales for approximately six weeks since the Company acquired Schuh on June 23, 2011.



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Schuh Group loss from operations was \$(3.5) million for the six months ended July 28, 2012, compared to \$(0.1) million for the six months ended July 30, 2011. The loss included \$5.9 million and \$1.4 million in compensation expense related to a deferred purchase price obligation in connection with the acquisition for the first six months of Fiscal 2013 and 2012, respectively. The loss also includes \$5.3 million and \$0.3 million related to accruals for a contingent bonus payment for Schuh employees provided for in the Schuh acquisition for the first six months of Fiscal 2013 and 2012, respectively. See Note 2 to the Condensed Consolidated Financial Statements for additional information related to the Schuh acquisition.

## Lids Sports Group

|                          | Six Months Ended       |                  |             |   |
|--------------------------|------------------------|------------------|-------------|---|
|                          | July 28,<br>2012       | July 30,<br>2011 | %<br>Change |   |
|                          | (dollars in thousands) |                  |             |   |
| Net sales                | \$365,015              | \$347,199        | 5.1         | % |
| Earnings from operations | \$39,739               | \$32,110         | 23.8        | % |
| Operating margin         | 10.9                   | % 9.2            |             | % |

Net sales from Lids Sports Group increased 5.1% to \$365.0 million for the six months ended July 28, 2012 compared to \$347.2 million for the same period last year, reflecting primarily a 3% increase in comparable store sales and a 2% increase in average Lids stores operated (i.e., the sum of the number of stores open on the first day of the fiscal year and the last day of each fiscal month during the year divided by seven). The comparable store sales increase reflected a 2% increase in comparable store units sold, primarily reflecting demand which management believes is driven by style trends. The average price per hat was flat for the first six months this year.

Lids Sports Group earnings from operations for the six months ended July 28, 2012 increased 23.8% to \$39.7 million compared to \$32.1 million for the six months ended July 30, 2011. The increase was due to increased headwear sales, increased gross margin as a percentage of net sales and to decreased expenses as a percentage of net sales, reflecting leverage from positive comparable store sales and decreased bonus compensation.

## Johnston &amp; Murphy Group

|                          | Six Months Ended       |                  |             |   |
|--------------------------|------------------------|------------------|-------------|---|
|                          | July 28,<br>2012       | July 30,<br>2011 | %<br>Change |   |
|                          | (dollars in thousands) |                  |             |   |
| Net sales                | \$99,692               | \$93,622         | 6.5         | % |
| Earnings from operations | \$5,823                | \$5,050          | 15.3        | % |
| Operating margin         | 5.8                    | % 5.4            |             | % |

Johnston & Murphy Group net sales increased 6.5% to \$99.7 million for the six months ended July 28, 2012 from \$93.6 million for the six months ended July 30, 2011, reflecting primarily a 3% increase in comparable store sales and a 16% 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

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wholesale business increased 18% in the first six months of Fiscal 2013 while the average price per pair of shoes decreased 2% for the same period. Retail operations accounted for 70.9% of Johnston & Murphy Group segment sales in the first six months this year, down from 73.2% in the first six months last year. The comparable store sales increase in the six months ended July 28, 2012 reflects a 4% increase in average price per pair of shoes for Johnston & Murphy retail operations while footwear unit comparable sales decreased 1%.

Johnston & Murphy Group earnings from operations for the six months ended July 28, 2012 increased 15.3% to \$5.8 million compared to \$5.1 million for the same period last year, primarily due to increased net sales and to decreased expenses as a percentage of net sales reflecting leverage from positive comparable store sales and increased wholesale sales.

## Licensed Brands

|                          | Six Months Ended       |                  |             |   |
|--------------------------|------------------------|------------------|-------------|---|
|                          | July 28,<br>2012       | July 30,<br>2011 | %<br>Change |   |
|                          | (dollars in thousands) |                  |             |   |
| Net sales                | \$53,522               | \$47,468         | 12.8        | % |
| Earnings from operations | \$4,792                | \$4,298          | 11.5        | % |
| Operating margin         | 9.0                    | % 9.1            | %           |   |

Licensed Brands' net sales increased 12.8% to \$53.5 million for the six months ended July 28, 2012, from \$47.5 million for the six months ended July 30, 2011. The sales increase reflects primarily \$4.3 million of increased sales from Dockers Footwear as well as increased sales of SureGrip Footwear and the Chaps line of footwear. Unit sales for Dockers Footwear increased 7% for the six months this year and the average price per pair of Dockers shoes increased 4% compared to the same period last year.

Licensed Brands' earnings from operations for the six months ended July 28, 2012 increased 11.5% to \$4.8 million compared to \$4.3 million for the same period last year. The increase in earnings from operations was due to increased net sales and decreased expenses as a percentage of net sales.

## Corporate, Interest Expenses and Other Charges

Corporate and other expense for the six months ended July 28, 2012 was \$21.2 million compared to \$27.8 million for the six months ended July 30, 2011. Corporate expense in the six months this year included \$0.5 million in asset impairment and other charges, primarily for retail store asset impairments and network intrusion costs. Last year's expense in the six months included \$1.6 million in asset impairment and other charges, primarily for retail store asset impairments, network intrusion costs and other legal matters, and \$7.2 million in acquisition related expenses. Excluding the charges listed above, corporate and other expense increased primarily due to increased professional fees and restricted stock expense.

Interest expense increased from \$1.6 million in the six months ended July 30, 2011 to \$2.3 million for the six months ended July 28, 2012, reflecting primarily interest on the additional debt assumed in connection with the Schuh acquisition.



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## Liquidity and Capital Resources

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

|  | July 28,<br>2012      | January 28,<br>2012 | July 30,<br>2011 |
|--|-----------------------|---------------------|------------------|
|  | (dollars in millions) |                     |                  |
| Cash and cash equivalents                  | \$47.2                | \$53.8              | \$35.6           |
| Working capital                            | \$361.3               | \$290.9             | \$323.6          |
| Long-term debt (including current portion) | \$100.5               | \$40.7              | \$164.5          |

## 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 used in operating activities was \$21.5 million in the first six months of Fiscal 2013 compared to \$18.2 million in the first six months of Fiscal 2012. The \$3.3 million decrease in cash flow from operating activities from last year reflects decreases in cash flow from changes in inventory of \$36.9 million offset by increased earnings and a \$16.4 million increase in cash flow from changes in other accrued liabilities. The \$36.9 million decrease in cash flow from inventory reflects seasonal increases in retail inventory to support sales. The \$16.4 million increase in cash flow from other accrued liabilities reflects a reclass from long-term liabilities, changes in timing of payments and increases due to growth in the Company.

The \$118.7 million increase in inventories at July 28, 2012 from January 28, 2012 levels reflected increased purchases in the Journeys Group, Schuh Group, Lids Sports Group and Johnston & Murphy Group, offset by decreased inventory in the Licensed Brand business.

Accounts receivable at July 28, 2012 increased \$2.9 million compared to January 28, 2012 reflecting increased sales in the footwear wholesale businesses.

## Sources of Liquidity

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

On June 23, 2011, the Company entered into a First Amendment (the "Amendment") to the Second Amended and Restated Credit Agreement (the "Credit Facility") dated January 21, 2011, in the aggregate principal amount of \$375.0 million, with a \$40.0 million swingline loan sublimit, a \$70.0 million sublimit for the issuance of standby letters of credit and a Canadian sub-facility of up to \$8.0 million, which has a five-year term, expiring in January 2016. The Amendment raised the aggregate principal amount on the Credit Facility to \$375.0 million from \$300.0 million. Any swingline loans and any letters of credit and borrowings under the Canadian sub-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 \$75.0 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 (\$375.0 million or, if increased at the Company's option, subject to the receipt of commitments for the increased amount, 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



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eligible wholesale receivables of the Lids Team Sports business) plus 90% of eligible credit card and debit card receivables less applicable reserves.

In connection with the Schuh acquisition, Schuh entered into an amended and restated Senior Term Facilities Agreement and Working Capital Facility Letter, which was allowed to lapse in June 2012, (collectively, the "UK Credit Facilities") which provides for term loans of up to £29.5 million (a £15.5 million A term loan and £14.0 million B term loan) and a working capital facility of £5.0 million. The A term loan bears interest at LIBOR plus 2.50% per annum. The B term loan bears interest at LIBOR plus 3.75% per annum. The Company is not required to make any payments on the B term loan until it expires on October 31, 2015, unless the Company's Schuh Group segment has excess cash flow. The Company paid £4.5 million on the B term loan in the fourth quarter of Fiscal 2012 and £2.8 million in the second quarter of Fiscal 2013.

The UK Credit Facilities contain certain covenants at the Schuh level including a minimum interest coverage covenant initially set at 4.25x and increasing to 4.50x in January 2012 and thereafter, a maximum leverage covenant initially set at 2.75x declining over time at various rates to 2.25x beginning in July 2012 and a minimum cash flow coverage of 1.10x. The Company was in compliance with all the covenants at July 28, 2012. The UK Credit Facilities are secured by a pledge of all the assets of Schuh and its subsidiaries.

Revolving credit borrowings averaged \$11.5 million during the six months ended July 28, 2012 and \$21.2 million during the six months ended July 30, 2011, as cash on hand, cash generated from operations and revolver borrowings primarily funded seasonal working capital requirements, capital expenditures and stock repurchases for the first six months of each year.

There were \$11.3 million of letters of credit outstanding, \$28.7 million in UK term loans outstanding and \$71.8 million revolver borrowings outstanding under the Credit Facility at July 28, 2012. The Company is not required to comply with any financial covenants under the Credit Facility unless Excess Availability (as defined in the Amendment) 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 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 \$292.8 million at July 28, 2012. 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 July 28, 2012.

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 2013. The Company's UK Credit Facility prohibits the payment of any dividends by Schuh or its subsidiaries to the Company.



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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 \$0.1 million.

The Company's contractual obligations at July 28, 2012 increased from January 28, 2012. Long-term debt obligations increased \$59.8 million due to increased revolver borrowings, lease obligations increased \$45.3 million due to increased store openings and purchase obligations increased \$37.3 million due to seasonal increases in purchases of retail inventory.

### Capital Expenditures

Total capital expenditures in Fiscal 2013 are expected to be approximately \$92.3 million. These include retail capital expenditures of approximately \$82.5 million to open approximately 27 Journeys stores, including 12 in Canada, ten Journeys Kidz stores, one Shi by Journeys store, 17 Schuh stores, 13 Johnston & Murphy shops and factory stores, including three in Canada, and 48 Lids Sports Group stores including 33 Lids stores, with 15 stores in Canada, and 15 Lids Locker Room and Clubhouse stores, and to complete approximately 145 major store renovations. The planned amount of capital expenditures in Fiscal 2013 for wholesale operations and other purposes is approximately \$9.8 million, including approximately \$4.6 million for new systems to improve customer service and support the Company's growth.

### Future Capital Needs

The Company expects that cash on hand, cash provided by operations and borrowings under its Credit Facility and UK Credit Facility will be sufficient to support seasonal working capital and capital expenditure requirements during Fiscal 2013. The approximately \$7.5 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 2013.

### Common Stock Repurchases

The Company repurchased 346,398 shares during the six months ended July 28, 2012 for a total cost of \$20.8 million. The Company did not repurchase any shares during the six months ended July 30, 2011.

### 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 \$0.1 million and \$1.2 million in the second quarter of Fiscal 2013 and Fiscal 2012, respectively, and \$0.4 million and \$1.6 million in the first six months of Fiscal 2013 and 2012, respectively. These charges are included in provision for discontinued operations, net in the Condensed Consolidated Statements of Operations because they relate to former facilities operated by the Company. 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, 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.



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### Financial Market Risk

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

**Outstanding Debt of the Company** - The Company has \$71.8 million of outstanding revolver borrowings at a weighted average interest rate of 3.38% as of July 28, 2012. A 100 basis point adverse change in interest rates would increase annual interest expense by \$0.7 million on the \$71.8 million revolver borrowings. The Company has \$28.7 million of outstanding U.K. term loans at a weighted average interest rate of 3.85% as of July 28, 2012. A 100 basis point adverse change in interest rates would increase annual interest expense by \$0.3 million on the \$28.7 million term loans.

**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 July 28, 2012. As a result, the Company considers the interest rate market risk implicit in these investments at July 28, 2012 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 was the Company's practice to hedge its risks through the purchase of forward foreign exchange contracts when the purchases were material. At July 28, 2012, the Company did not have any forward foreign exchange contracts outstanding.

**Accounts Receivable** - The Company's accounts receivable balance at July 28, 2012 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 wholesale business receivables, one customer accounted for 8% and no other customer accounted for more than 6% of the Company's total trade receivables balance as of July 28, 2012. 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 and foreign currency rate exposure at July 28, 2012, the Company believes that the effect, if any, of reasonably possible near-term changes in interest rates or foreign currency exchange rates on the Company's consolidated financial position, results of operations or cash flows for Fiscal 2013 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 six months ended July 28, 2012 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.



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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 July 28, 2012, 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 second quarter that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

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## 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 fiscal year ended January 28, 2012.

## 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 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) |
|-----------------------------------|--------------------------------------|----------------------------------|--|---|
| May 2012                          |                                      |                                  |  |   |
| 4-29-12 to 5-26-12                | —                                    | \$—                              | —  | \$—   |
| June 2012                         |                                      |                                  |  |   |
| 5-27-12 to 6-23-12 <sup>(1)</sup> | 70,931                               | \$59.68                          | —  | \$—   |
| 5-27-12 to 6-23-12 <sup>(2)</sup> | 156,100                              | \$61.29                          | 156,100  | \$24,784  |
| July 2012                         |                                      |                                  |  |   |
| 6-24-12 to 7-28-12 <sup>(2)</sup> | 190,298                              | \$59.16                          | 190,298  | \$13,525  |

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

During the second quarter of Fiscal 2013, the Company repurchased shares under an existing \$35.0 million (2) authorization from the board of directors. As of July 28, 2012, the Company had repurchased 366,398 shares at a cost of \$21.5 million.



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Item 6. Exhibits

Exhibits

- (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.
  
- 101.INS XBRL Instance Document
- 101.SCH XBRL Schema Document
- 101.CAL XBRL Calculation Linkbase Document
- 101.DEF XBRL Definition Linkbase Document
- 101.LAB XBRL Label Linkbase Document
- 101.PRE XBRL Presentation Linkbase Document



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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: September 6, 2012