

GENESCO INC
Form 10-Q
December 09, 2008

Table of Contents

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

(Mark One)

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

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

Genesco Inc.

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

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

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

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

(Do not check if a smaller reporting company)

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

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



INDEX

	Page
<u>Part I. Financial Information</u>	
<u>Item 1. Financial Statements (unaudited):</u>	
<u>Condensed Consolidated Balance Sheets November 1, 2008, February 2, 2008 and November 3, 2007</u>	3
<u>Condensed Consolidated Statements of Earnings Three Months and Nine Months Ended November 1, 2008 and November 3, 2007</u>	5
<u>Condensed Consolidated Statements of Cash Flows Three Months and Nine Months Ended November 1, 2008 and November 3, 2007</u>	6
<u>Condensed Consolidated Statements of Shareholders Equity Year Ended February 2, 2008 and Nine Months Ended November 1, 2008</u>	7
<u>Notes to Condensed Consolidated Financial Statements</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	39
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	55
<u>Item 4. Controls and Procedures</u>	56
<u>Part II. Other Information</u>	
<u>Item 1. Legal Proceedings</u>	57
<u>Item 1A. Risk Factors</u>	57
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	57
<u>Item 5. Other Information</u>	58
<u>Item 6. Exhibits</u>	58
Signature	59
<u>EX-10.2</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	

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

Condensed Consolidated Balance Sheets

(In Thousands, except share amounts)

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

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

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

Condensed Consolidated Balance Sheets

(In Thousands, except share amounts)

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

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

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

Condensed Consolidated Statements of Earnings

(In Thousands, except per share amounts)

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

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

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

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

Edgar Filing: GENESCO INC - Form 10-Q

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

Supplemental Cash Flow Information:

Net cash paid for:

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

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

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

Condensed Consolidated Statements of Shareholders' Equity

(In Thousands)

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

Edgar Filing: GENESCO INC - Form 10-Q

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

\$0.1 million)

Foreign currency
translation

adjustment

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

Comprehensive
income

\$ 127,654

Balance

**November 1,
2008**

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

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

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

Table of Contents

**Genesco Inc.
and Subsidiaries**

Notes to Condensed Consolidated Financial Statements

Note 1

Summary of Significant Accounting Policies

Interim Statements

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

Nature of Operations

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

Principles of Consolidation

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

Use of Estimates

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

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

Inventory Valuation

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

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

Table of Contents

**Genesco Inc.
and Subsidiaries**

Notes to Condensed Consolidated Financial Statements

Note 1

Summary of Significant Accounting Policies, Continued

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

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

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

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

Impairment of Long-Lived Assets

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

Table of Contents

**Genesco Inc.
and Subsidiaries**

Notes to Condensed Consolidated Financial Statements

Note 1

Summary of Significant Accounting Policies, Continued

Environmental and Other Contingencies

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

Revenue Recognition

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

Table of Contents

**Genesco Inc.
and Subsidiaries**

Notes to Condensed Consolidated Financial Statements

Note 1

Summary of Significant Accounting Policies, Continued

Income Taxes

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

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

Postretirement Benefits Plan Accounting

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

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

Notes to Condensed Consolidated Financial Statements

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

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

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

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

Share-Based Compensation

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

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

Notes to Condensed Consolidated Financial Statements

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

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

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

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

Cash and Cash Equivalents

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

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

Notes to Condensed Consolidated Financial Statements

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

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

Concentration of Credit Risk and Allowances on Accounts Receivable

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

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

Property and Equipment

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

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

Leases

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

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

Table of Contents

**Genesco Inc.
and Subsidiaries**

Notes to Condensed Consolidated Financial Statements

Note 1

Summary of Significant Accounting Policies, Continued

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

Goodwill and Other Intangibles

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

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

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

Cost of Sales

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

Table of Contents

**Genesco Inc.
and Subsidiaries**

Notes to Condensed Consolidated Financial Statements

Note 1

Summary of Significant Accounting Policies, Continued

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

Selling and Administrative Expenses

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

Gift Cards

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

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

Buying, Merchandising and Occupancy Costs

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

Table of Contents

**Genesco Inc.
and Subsidiaries**

Notes to Condensed Consolidated Financial Statements

Note 1

Summary of Significant Accounting Policies, Continued

Shipping and Handling Costs

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

Preopening Costs

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

Store Closings and Exit Costs

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

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

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

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

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

Notes to Condensed Consolidated Financial Statements

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

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

Consideration to Resellers

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

Cooperative Advertising

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

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

Table of Contents

**Genesco Inc.
and Subsidiaries**

Notes to Condensed Consolidated Financial Statements

Note 1

Summary of Significant Accounting Policies, Continued

Vendor Allowances

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

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

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

Environmental Costs

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

Table of Contents

**Genesco Inc.
and Subsidiaries**

Notes to Condensed Consolidated Financial Statements

Note 1

Summary of Significant Accounting Policies, Continued

Earnings Per Common Share

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

Other Comprehensive Income

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

Business Segments

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

Derivative Instruments and Hedging Activities

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

Table of Contents

**Genesco Inc.
and Subsidiaries**

Notes to Condensed Consolidated Financial Statements

Note 1

Summary of Significant Accounting Policies, Continued

New Accounting Principles

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

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

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

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

Table of Contents

**Genesco Inc.
and Subsidiaries**

Notes to Condensed Consolidated Financial Statements

Note 2

Terminated Merger Agreement

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

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

Note 3

Restructuring and Other Charges and Discontinued Operations

Restructuring and Other Charges

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

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

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

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

Notes to Condensed Consolidated Financial Statements

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

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

Discontinued Operations

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

Accrued Provision for Discontinued Operations

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

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

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

Notes to Condensed Consolidated Financial Statements

Note 4**Inventories**

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

Note 5**Derivative Instruments and Hedging Activities**

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

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

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

Notes to Condensed Consolidated Financial Statements

Note 6**Fair Value**

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

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

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

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

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

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

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

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

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

Balance Sheets
at each
measurement
date.

25

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

Notes to Condensed Consolidated Financial Statements

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

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

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

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

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

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

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

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

Notes to Condensed Consolidated Financial Statements

Note 9**Earnings Per Share**

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

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

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

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

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

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

Notes to Condensed Consolidated Financial Statements

Note 9**Earnings Per Share, Continued**

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

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

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

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

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

Table of Contents

**Genesco Inc.
and Subsidiaries**

Notes to Condensed Consolidated Financial Statements

Note 10

Legal Proceedings

Environmental Matters

New York State Environmental Matters

In August 1997, the New York State Department of Environmental Conservation (NYSDEC) and the Company entered into a consent order whereby the Company assume