

GENESCO INC  
Form 10-K  
March 28, 2012  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

(Mark One)

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

**For the Fiscal Year Ended January 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 Corporation**  
(State or other jurisdiction of

**62-0211340**  
(I.R.S. Employer

Edgar Filing: GENESCO INC - Form 10-K

incorporation or organization)

Identification No.)

Genesco Park, 1415 Murfreesboro Road

Nashville, Tennessee  
(Address of principal executive offices)

37217-2895  
(Zip Code)

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

Securities Registered Pursuant to Section 12(b) of the Act:

| Title of each class             | Name of Exchange on which Registered |
|---------------------------------|--------------------------------------|
| Common Stock, \$1.00 par value  | New York and Chicago                 |
| Preferred Share Purchase Rights | New York and Chicago                 |

Securities Registered Pursuant to Section 12(g) of the Act:

Subordinated Serial Preferred Stock, Series 1

Employees Subordinated Convertible Preferred Stock

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

The aggregate market value of common stock held by nonaffiliates of the registrant as of July 30, 2011, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$1,252,000,000. The market value calculation was determined using a per

## Edgar Filing: GENESCO INC - Form 10-K

share price of \$51.80, the price at which the common stock was last sold on the New York Stock Exchange on such date. For purposes of this calculation, shares held by nonaffiliates excludes only those shares beneficially owned by officers, directors, and shareholders owning 10% or more of the outstanding common stock (and, in each case, their immediate family members and affiliates).

As of March 16, 2012, 24,414,831 shares of the registrant's common stock were outstanding.

**Table of Contents**

## TABLE OF CONTENTS

|   | <b>Page</b> |
|---|-------------|
| <b><u>PART I</u></b>  |             |
| Item 1. <u>Business</u>   | 3           |
| Item 1A. <u>Risk Factors</u>  | 10          |
| Item 1B. <u>Unresolved Staff Comments</u>   | 17          |
| Item 2. <u>Properties</u>   | 18          |
| Item 3. <u>Legal Proceedings</u>  | 18          |
| Item 4. <u>Mine Safety Disclosures</u>  | 20          |
| Item 4A. <u>Executive Officers</u>  | 21          |
| <b><u>PART II</u></b>   |             |
| Item 5. <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> | 23          |
| Item 6. <u>Selected Financial Data</u>  | 24          |
| Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                        | 25          |
| Item 7A. <u>Quantitative and Qualitative Disclosures about Market Risk</u>  | 50          |
| Item 8. <u>Financial Statements and Supplementary Data</u>  | 51          |
| Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>                         | 119         |
| Item 9A. <u>Controls and Procedures</u>   | 119         |
| Item 9B. <u>Other Information</u>   | 120         |
| <b><u>PART III</u></b>  |             |
| Item 10. <u>Directors, Executive Officers and Corporate Governance</u>  | 120         |
| Item 11. <u>Executive Compensation</u>  | 120         |
| Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>              | 121         |
| Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>                                   | 121         |
| Item 14. <u>Principal Accounting Fees and Services</u>  | 121         |
| <b><u>PART IV</u></b>   |             |
| Item 15. <u>Exhibits and Financial Statement Schedules</u>  | 122         |
| <b>Documents Incorporated by Reference</b>  |             |

Portions of Genesco's Annual Report to Shareholders for the fiscal year ended January 28, 2012 are incorporated into Part II by reference.

Portions of the proxy statement for the June 27, 2012 annual meeting of shareholders are incorporated into Part III by reference.

**Table of Contents****PART I****ITEM 1. BUSINESS****General**

Genesco Inc. (the Company) is a leading retailer and wholesaler of branded footwear, apparel and accessories with net sales for Fiscal 2012 of \$2.29 billion. During Fiscal 2012, the Company operated six reportable business segments (not including corporate): (i) Journeys Group, comprised of the Journeys, Journeys Kidz and Shi by Journeys retail footwear chains, catalog and e-commerce operations; (ii) Underground Station Group, comprised of the Underground Station retail footwear chain and e-commerce operations; (iii) Schuh Group, acquired in June 2011, comprised of the Schuh retail footwear chain and e-commerce operations; (iv) Lids Sports Group, comprised of (a) headwear and accessory stores under the Lids® name and other names in the U.S., Puerto Rico and Canada, (b) 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, (c) the Lids Clubhouse business, consisting of single team fan shops, (d) e-commerce business and (e) an athletic team dealer business operating as Lids Team Sports; (v) Johnston & Murphy Group, comprised of Johnston & Murphy retail operations, catalog and e-commerce operations and wholesale distribution; and (vi) Licensed Brands, comprised primarily of Dockers® footwear, sourced and marketed under a license from Levi Strauss & Company.

At January 28, 2012, the Company operated 2,212 retail footwear, headwear and sports apparel and accessory stores located primarily throughout the United States and in Puerto Rico, but also including 83 headwear stores and 14 footwear stores in Canada and 64 footwear stores and 14 footwear concessions in the United Kingdom and the Republic of Ireland. It currently plans to open a total of approximately 100 new retail stores and close 41 retail stores in Fiscal 2013. At January 28, 2012, Journeys Group operated 1,017 stores, including 152 Journeys Kidz and 53 Shi by Journeys; Underground Station Group operated 137 stores; Schuh Group operated 64 stores and 14 concessions; Lids Sports Group operated 1,002 stores and Johnston & Murphy Group operated 153 retail shops and factory stores.

The following table sets forth certain additional information concerning the Company's retail footwear, headwear and sports apparel and accessory stores during the five most recent fiscal years:

|                      | <b>Fiscal<br/>2008</b> | <b>Fiscal<br/>2009</b> | <b>Fiscal<br/>2010</b> | <b>Fiscal<br/>2011</b> | <b>Fiscal<br/>2012</b> |
|----------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| <b>Retail Stores</b> |                        |                        |                        |                        |                        |
| Beginning of year    | 2,009                  | 2,175                  | 2,234                  | 2,276                  | 2,309                  |
| Opened during year   | 229                    | 102                    | 61                     | 53                     | 70                     |
| Acquired during year | -0-                    | -0-                    | 38                     | 58                     | 85                     |
| Closed during year   | (63)                   | (43)                   | (57)                   | (78)                   | (77)                   |
| End of year          | 2,175                  | 2,234                  | 2,276                  | 2,309                  | 2,387                  |

---

**Table of Contents**

The Company also designs, sources, markets and distributes footwear under its own Johnston & Murphy brand and under the licensed Dockers® brand to over 970 retail accounts in the United States, including a number of leading department, discount, and specialty stores.

Shorthand references to fiscal years (e.g., Fiscal 2012 ) refer to the fiscal year ended on the Saturday nearest January 31 in the named year (e.g., January 28, 2012). All information contained in Management's Discussion and Analysis of Financial Condition and Results of Operations, which is referred to in Item 1 of this report, is incorporated by such reference in Item 1. This report contains forward-looking statements. Actual results may vary materially and adversely from the expectations reflected in these statements. For a discussion of some of the factors that may lead to different results, see Item 1A, Risk Factors and Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

**Available Information**

The Company files reports with the Securities and Exchange Commission ( SEC ), including annual reports on Form 10-K, quarterly reports on Form 10-Q and other reports from time to time. The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F. Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The Company is an electronic filer and the SEC maintains an Internet site at <http://www.sec.gov> that contains the reports, proxy and information statements, and other information filed electronically. The Company's website address is <http://www.genesco.com>. The Company's website address is provided as an inactive textual reference only. The Company makes available free of charge through the website annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. Copies of the charters of each of the Company's Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee, as well as the Company's Corporate Governance Guidelines and Code of Ethics along with position descriptions for the Board of Directors and Board committees are also available free of charge through the website. The information provided on the Company's website is not part of this report, and is therefore not incorporated by reference unless such information is otherwise specifically incorporated elsewhere in this report.

**Segments**

*Journeys Group*

The Journeys Group segment, including Journeys, Journeys Kidz and Shi by Journeys retail stores, catalog and e-commerce operations, accounted for approximately 41% of the Company's net sales in Fiscal 2012. Operating income attributable to Journeys Group was \$82.8 million in Fiscal 2012, with an operating margin of 8.9%. The Company believes that the Journeys Group's distinctive store formats, its mix of well-known brands and new product introductions, and its experienced management team provide significant competitive advantages for the Group.

At January 28, 2012, Journeys Group operated 1,017 stores, including 152 Journeys Kidz stores and 53 Shi by Journeys stores, averaging approximately 1,875 square feet, throughout the United States and in Puerto Rico and Canada, selling footwear and accessories for young men, women and children.

---

**Table of Contents**

Comparable store sales increased 15% from the prior fiscal year. Journeys stores target customers in the 13-22 year age group through the use of youth-oriented decor and multi-channel media. Journeys stores carry predominately branded merchandise across a wide range of prices. The Journeys Kidz retail footwear stores sell footwear and accessories primarily for younger children ages five to 12. Shi by Journeys retail footwear stores sell footwear and accessories to a target customer group consisting of fashion-conscious women in their early 20 s to mid 30 s. In Fiscal 2012, the Journeys Group opened 18 new stores and closed 18 stores. Journeys Group plans to open approximately 37 new Journeys Group stores and close 38 stores in Fiscal 2013.

*Underground Station Group*

The Underground Station Group segment, including e-commerce operations, accounted for approximately 4% of the Company s net sales in Fiscal 2012. Operating loss attributable to Underground Station Group was (\$0.3) million in Fiscal 2012, with an operating margin of (0.4)%.

At January 28, 2012, Underground Station Group operated 137 stores, averaging approximately 1,825 square feet, throughout the United States, selling footwear and accessories primarily for men and women in the 20-35 age group.

Underground Station stores are located primarily in urban markets. Comparable store sales were up 6% for Underground Station Group for Fiscal 2012. For Fiscal 2012, most of the footwear sold in Underground Station stores was branded merchandise, with the remainder made up of private label brands. The product mix at each Underground Station store is tailored in response to local customer preferences and competitive dynamics. The Company did not open any Underground Station stores in Fiscal 2012 and closed 14 stores. The Company has announced the integration of Underground Station operations into the Journeys Group segment during Fiscal 2013. The former Underground Station stores will be a subset of Journeys Group under the brand Underground by Journeys. Product in the new Underground by Journeys stores will resemble a traditional Journeys store with appropriate merchandise changes to reflect mall and store demographics, targeting a somewhat older customer base than Journeys stores. The Company plans to continue to close underperforming Underground by Journeys locations. For additional information, see Management s Discussion and Analysis of Financial Condition and Results of Operations.

*Schuh Group*

The Schuh Group segment, including e-commerce operations, accounted for approximately 9% of the Company s net sales in Fiscal 2012, which only included sales beginning June 20, 2011 when the Company acquired Schuh. Operating income attributable to Schuh Group was \$11.7 million in Fiscal 2012, with an operating margin of 5.5%. Operating income for Schuh included \$7.2 million in compensation expense related to a deferred purchase price obligation in connection with the acquisition. For additional information, see Note 2 to the Consolidated Financial Statements included in Item 8.

At January 28, 2012, Schuh Group operated 64 stores, averaging approximately 4,575 square feet, which include both street-level and mall locations in the United Kingdom and the Republic of Ireland. The Schuh Group also operated 14 footwear concessions in Republic apparel stores in the United Kingdom, averaging approximately 1,200 square feet. Schuh Group plans to open approximately eight new Schuh stores in Fiscal 2013. Schuh stores target men and women in the 15-30 age group selling a broad range of branded casual and athletic footwear along with a meaningful private label offering.

## **Table of Contents**

### *Lids Sports Group*

The Lids Sports Group segment, as described above, accounted for approximately 33% of the Company's net sales in Fiscal 2012. Operating income attributable to Lids Sports Group was \$82.3 million in Fiscal 2012, with an operating margin of 10.8%.

At January 28, 2012, Lids Sports Group operated 1,002 stores, averaging approximately 1,075 square feet, throughout the United States and in Puerto Rico and Canada. Lids Sports Group added 17 net new stores in Fiscal 2012, including 10 acquired stores, and plans to open approximately 42 net new stores in Fiscal 2013.

Comparable store sales for Lids Sports Group were up 12% for Fiscal 2012. The core headwear stores and kiosks, located in malls, airports, street-level stores and factory outlet stores throughout the United States, Puerto Rico and Canada, target customers in the early-teens to mid-20's age group. In general, the stores offer headwear from an assortment of college, MLB, NBA, NFL and NHL teams, as well as other specialty fashion categories. The Lids Locker Room and Lids Clubhouse stores, operating under a number of trade names, located in malls and other locations primarily in the United States, target sports fans of all ages. These stores offer headwear, apparel, accessories and novelties from an assortment of college and professional teams. The single-team Clubhouse stores offer headwear, apparel and accessories for specific college or professional teams.

### *Johnston & Murphy Group*

The Johnston & Murphy Group segment, including retail stores, catalog and e-commerce operations and wholesale distribution, accounted for approximately 9% of the Company's net sales in Fiscal 2012. Operating income attributable to Johnston & Murphy Group was \$13.7 million in Fiscal 2012, with an operating margin of 6.8%. All of the Johnston & Murphy wholesale sales are of the Genesco-owned Johnston & Murphy brand and approximately 99% of the group's retail sales are of Johnston & Murphy branded products.

**Johnston & Murphy Retail Operations.** At January 28, 2012, Johnston & Murphy operated 153 retail shops and factory stores throughout the United States averaging approximately 1,750 square feet and selling footwear, luggage and accessories primarily for men in the 35-55 age group, targeting business and professional customers. Johnston & Murphy introduced a line of women's footwear and accessories in select Johnston & Murphy retail shops in the fall of 2008. Johnston & Murphy retail shops are located primarily in better malls and airports nationwide and sell a broad range of men's dress and casual footwear and accessories. The Company also sells Johnston & Murphy products directly to consumers through a direct mail catalog and an e-commerce website. Comparable store sales for Johnston & Murphy retail operations increased 10% for Fiscal 2012. Retail prices for Johnston & Murphy footwear generally range from \$100 to \$275. Total footwear accounted for 64% of total Johnston & Murphy retail sales in Fiscal 2012, with the balance consisting of luggage, apparel and accessories. Johnston & Murphy Group added six new shops and factory stores and closed nine shops and factory stores in Fiscal 2012, and plans to open approximately ten net new shops and factory stores in Fiscal 2013.



## **Table of Contents**

Johnston & Murphy Wholesale Operations. In addition to Company-owned Johnston & Murphy retail shops and factory stores, Johnston & Murphy men's footwear and accessories are sold at wholesale, primarily to better department and independent specialty stores. Johnston & Murphy's wholesale customers offer the brand's footwear for dress, dress casual, and casual occasions, with the majority of styles offered in these channels selling from \$100-\$165.

### *Licensed Brands*

The Licensed Brands segment accounted for approximately 4% of the Company's net sales in Fiscal 2012. Operating income attributable to Licensed Brands was \$9.5 million in Fiscal 2012, with an operating margin of 9.7%. Licensed Brands sales are primarily footwear marketed under the Dockers® brand, for which Genesco has had the exclusive men's footwear license in the United States since 1991. See Trademarks and Licenses. Dockers footwear is marketed to men aged 30-55 through many of the same national retail chains that carry Dockers slacks and sportswear and in department and specialty stores across the country. Suggested retail prices for Dockers footwear generally range from \$50 to \$90.

For further information on the Company's business segments, see Note 14 to the Consolidated Financial Statements included in Item 8 and Management's Discussion and Analysis of Financial Condition and Results of Operations.

## **Manufacturing and Sourcing**

The Company relies on independent third-party manufacturers for production of its footwear products sold at wholesale. The Company sources footwear and accessory products from foreign manufacturers located in Bangladesh, Belgium, Brazil, Canada, China, Denmark, Dominican Republic, France, India, Indonesia, Ireland, Italy, Korea, Mexico, Netherlands, Peru, Portugal, Spain, Sweden, Thailand and Vietnam. The Company's retail operations source primarily branded products from third parties, who source primarily overseas.

## **Competition**

Competition is intense in the footwear and headwear industry. The Company's retail footwear and headwear competitors range from small, locally owned stores to regional and national department stores, discount stores, and specialty chains. The Company also competes with hundreds of footwear wholesale operations in the United States and throughout the world, most of which are relatively small, specialized operations, but some of which are large, more diversified companies. Some of the Company's competitors have resources that are not available to the Company. The Company's success depends upon its ability to remain competitive with respect to the key factors of style, price, quality, comfort, brand loyalty, customer service, store location and atmosphere and the ability to offer distinctive products.

## **Trademarks and Licenses**

The Company owns its Johnston & Murphy brand and owns or licenses the trade names of its retail concepts either directly or through wholly-owned subsidiaries. The Dockers® brand footwear line, introduced in Fiscal 1993, is sold under a license agreement granting the exclusive right to sell men's footwear under the trademark in the United States, Canada and Mexico and in certain other Latin American countries. The Dockers license agreement, as amended, expires on December 31, 2012. Net sales of Dockers products were \$78 million in Fiscal 2012 and \$87 million in Fiscal 2011. The Company licenses certain of its footwear brands, mostly in foreign markets. License royalty income was not material in Fiscal 2012.

**Table of Contents**

**Wholesale Backlog**

Most of the orders in the Company's wholesale divisions are for delivery within 150 days. Because most of the Company's business is at-once, the backlog at any one time is not necessarily indicative of future sales. As of February 25, 2012, the Company's wholesale operations had a backlog of orders, including unconfirmed customer purchase orders, amounting to approximately \$47.5 million, compared to approximately \$49.4 million on February 26, 2011. The backlog is somewhat seasonal, reaching a peak in spring. The Company maintains in-stock programs for selected product lines with anticipated high volume sales.

**Employees**

Genesco had approximately 21,475 employees at January 28, 2012, approximately 120 of whom were employed in corporate staff departments and the balance in operations. The Company added over 3,000 employees during Fiscal 2012 as a result of the Schuh acquisition. Retail footwear and headwear stores employ a substantial number of part-time employees, and approximately 13,100 of the Company's employees were part-time.

**Table of Contents****Properties**

At January 28, 2012, the Company operated 2,387 retail footwear, headwear and sports apparel and accessory stores throughout the United States and in Puerto Rico, Canada, the United Kingdom and the Republic of Ireland. New shopping center store leases in the United States, Puerto Rico and Canada typically are for a term of approximately 10 years and new factory outlet leases typically are for a term of approximately five years. Store leases in the United Kingdom and the Republic of Ireland typically have terms of between 10 and 35 years. Both typically provide for rent based on a percentage of sales against a fixed minimum rent based on the square footage leased.

The general location, use and approximate size of the Company's principal properties are set forth below:

| <b>Location</b>                                 | <b>Owned/Leased</b> | <b>Use</b>  | <b>Approximate Area Square Feet</b> |
|---|---------------------|---|-------------------------------------|
| Lebanon, TN                                     | Owned               | Distribution warehouse                            | 320,000                             |
| Nashville, TN                                   | Leased              | Executive & footwear operations offices           | 295,000*                            |
| Chapel Hill, TN                                 | Owned               | Distribution warehouse                            | 182,000                             |
| Fayetteville, TN                                | Owned               | Distribution warehouse                            | 178,500                             |
| Indianapolis, IN                                | Leased              | Distribution warehouse                            | 152,158                             |
| Indianapolis, IN                                | Leased              | Distribution warehouse and manufacturing          | 143,752                             |
| Deans Industrial Estate, Livingston, Scotland   | Owned               | Distribution warehouse and administrative offices | 106,813                             |
| Lake Katrine, NY                                | Leased              | Distribution warehouse and administrative offices | 68,300                              |
| Nashville, TN                                   | Owned               | Distribution warehouse                            | 63,000                              |
| Deforest, WI                                    | Leased              | Distribution warehouse and administrative offices | 52,000                              |
| Indianapolis, IN                                | Leased              | Headwear operations offices                       | 43,000                              |
| Houston Industrial Estate, Livingston, Scotland | Leased              | Distribution warehouse                            | 27,378                              |
| Penn Yan, NY                                    | Leased              | Distribution warehouse and administrative offices | 21,300                              |
| Tigard, OR                                      | Leased              | Administrative offices                            | 17,844                              |
| Rock Island, IL                                 | Leased              | Distribution warehouse and administrative offices | 17,400                              |
| Clifton Park, NY                                | Leased              | Distribution warehouse and administrative offices | 14,628                              |
| Mississauga, Ontario, Canada                    | Leased              | Distribution warehouse                            | 14,071                              |
| Tampa, FL                                       | Leased              | Distribution warehouse and administrative offices | 7,112                               |

\* The Company occupies approximately 80% of the building and subleases the remainder of the building.

The lease on the Company's Nashville office expires in April 2017, with an option to renew for an additional five years. The lease on the Indianapolis headwear office expires in May 2015. The Company believes that all leases of properties that are material to its operations may be renewed on terms not materially less favorable to the Company than existing leases.

---

**Table of Contents**

**Environmental Matters**

The Company's former manufacturing operations and the sites of those operations are subject to numerous federal, state, and local laws and regulations relating to human health and safety and the environment. These laws and regulations address and regulate, among other matters, wastewater discharge, air quality and the generation, handling, storage, treatment, disposal, and transportation of solid and hazardous wastes and releases of hazardous substances into the environment. In addition, third parties and governmental agencies in some cases have the power under such laws and regulations to require remediation of environmental conditions and, in the case of governmental agencies, to impose fines and penalties. Several of the facilities owned by the Company (currently or in the past) are located in industrial areas and have historically been used for extensive periods for industrial operations such as tanning, dyeing, and manufacturing. Some of these operations used materials and generated wastes that would be considered regulated substances under current environmental laws and regulations. The Company currently is involved in certain administrative and judicial environmental proceedings relating to the Company's former facilities. See Item 3, Legal Proceedings.

**ITEM 1A. RISK FACTORS**

Our business is subject to significant risks. You should carefully consider the risks and uncertainties described below and the other information in this Form 10-K, including our consolidated financial statements and the notes to those statements. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we do not presently know about or that we currently consider immaterial may also affect our business operations and financial performance. If any of the events described below actually occur, our business, financial condition or results of operations could be adversely affected in a material way. This could cause the trading price of our stock to decline, perhaps significantly, and you may lose part or all of your investment.

**Poor economic conditions and other factors can affect consumer spending and may significantly harm our business, affecting our financial condition, liquidity, and results of operations.**

The success of our business depends to a significant extent upon the level of consumer spending. A number of factors may affect the level of consumer spending on merchandise that we offer, including, among other things:

general economic, industry and weather conditions;

energy costs, which affect gasoline and home heating prices;

the level of consumer debt;

pricing of products;

interest rates;

tax rates and policies;

war, terrorism and other hostilities; and

consumer confidence in future economic conditions.

## Edgar Filing: GENESCO INC - Form 10-K

Adverse economic conditions and any related decrease in consumer demand for discretionary items could have a material adverse effect on our business, results of operations and financial condition. The merchandise we sell generally consists of discretionary items. Reduced consumer confidence and spending may result in reduced demand for discretionary items and may force us to take inventory markdowns, decreasing sales and making expense leverage

## **Table of Contents**

difficult to achieve, and may force us to take inventory markdowns. Demand can also be influenced by other factors beyond our control. For example, sales in the Lids Sports Group segment have historically been affected by developments in team sports, and could be adversely impacted by player strikes or other interruptions, as well as by the performance and reputation of certain teams.

Moreover, while the Company believes that its operating cash flows and its borrowing capacity under committed lines of credit will be more than adequate for its anticipated cash requirements, if the economy were to experience a renewed downturn, or if one or more of the Company's revolving credit banks were to fail to honor its commitments under the Company's credit lines, the Company could be required to modify its operations for decreased cash flow or to seek alternative sources of liquidity, and such alternative sources might not be available to the Company.

Finally, deterioration in the Company's market value, whether related to the Company's operating performance or to disruptions in the equity markets or deterioration in the operating performance of the business unit with which goodwill is associated, could require the Company to recognize the impairment of some or all of the \$259.8 million of goodwill on its Consolidated Balance Sheets at January 28, 2012, resulting in the reduction of net assets and a corresponding non-cash charge to earnings in the amount of the impairment.

### **Our business involves a degree of fashion risk.**

The majority of our businesses serve a fashion-conscious customer base and depend upon the ability of our buyers and merchandisers to react to fashion trends, to purchase inventory that reflects such trends, and to manage our inventories appropriately in view of the potential for sudden changes in fashion or in consumer taste. Failure to continue to execute any of these activities successfully could result in adverse consequences, including lower sales, product margins, operating income and cash flows.

### **Our business and results of operations are subject to a broad range of uncertainties arising out of world and domestic events.**

Our business and results of operations are subject to uncertainties arising out of world and domestic events, which may impact not only consumer demand, but also our ability to obtain the products we sell, most of which are produced outside the countries in which we operate. These uncertainties may include a global economic slowdown, changes in consumer spending or travel, the increase in gasoline and natural gas prices, and the economic consequences of natural disasters, military action or terrorist activities and increased regulatory and compliance burdens related to governmental actions in response to a variety of factors, including but not limited to national security and anti-terrorism concerns and concerns about climate change. Any future events arising as a result of terrorist activity or other world events may have a material impact on our business, including the demand for and our ability to source products, and consequently on our results of operations and financial condition.

---

**Table of Contents**

**The increasing scope of our non-U.S. operations exposes our performance to risks including foreign economic conditions and exchange rate fluctuations.**

Our performance depends in part on general economic conditions affecting all countries in which we do business. We are dependent on foreign manufacturers for the products we sell, and our inventory is subject to cost and availability of foreign materials and labor. Demand for our product offering in our non-U.S. operations is also subject to local market conditions. Recently, the economic situation in Europe has been unstable, arising from concerns that certain European countries may default in payments due on their national debt obligations and from related European financial restructuring efforts, the effects of which could be felt throughout the European Union, including in the U.K. and the Republic of Ireland, where our recently acquired Schuh operations are based. While Schuh has performed above our expectations since its acquisition, there can be no assurance that its future performance will not be adversely affected by economic conditions in its markets.

As we expand our international operations, we also increase our exposure to exchange rate fluctuations. Sales from stores outside the U.S. are denominated in the currency of the country in which these operations or stores are located and changes in foreign exchange rates affect the translation of the sales and earnings of these businesses into U.S. dollars for financial reporting purposes. Additionally, inventory purchase agreements may also be denominated in the currency of the country where the vendor resides.

**Our business is intensely competitive and increased or new competition could have a material adverse effect on us.**

The retail footwear, headwear and accessories markets are intensely competitive. We currently compete against a diverse group of retailers, including other regional and national specialty stores, department and discount stores, small independents and e-commerce retailers, which sell products similar to and often identical to those we sell. Our branded businesses, selling footwear at wholesale, also face intense competition, both from other branded wholesale vendors and from private label initiatives of their retailer customers. A number of different competitive factors could have a material adverse effect on our business, results of operations and financial condition, including:

increased operational efficiencies of competitors;

competitive pricing strategies;

expansion by existing competitors;

entry by new competitors into markets in which we currently operate; and

adoption by existing retail competitors of innovative store formats or sales methods.

**We are dependent on third-party vendors for the merchandise we sell.**

We do not manufacture any of the merchandise we sell. This means that our product supply is subject to the ability and willingness of third-party suppliers to deliver merchandise we order on time and in the quantities and of the quality we need. In addition, a material portion of our retail footwear sales consists of products marketed under brands, belonging to unaffiliated vendors, which have fashion significance to our customers. Our core retail hat business is dependent upon products bearing sports and other logos, each generally controlled by a single licensee/vendor. If those vendors were to decide not to sell to us or to limit the availability of

**Table of Contents**

their products to us, or if they become unable because of economic conditions or any other reason to supply us with products, we could be unable to offer our customers the products they wish to buy and could lose their business to competitors.

**An increase in the cost or a disruption in the flow of our imported products may significantly decrease our sales and profits.**

Merchandise originally manufactured and imported from overseas makes up a large proportion of our total inventory. A disruption in the shipping of our imported merchandise or an increase in the cost of those products may significantly decrease our sales and profits. We may be unable to meet our customers' demands or pass on price increases to our customers. In addition, if imported merchandise becomes more expensive or unavailable, the transition to alternative sources may not occur in time to meet demand. Products from alternative sources may also be of lesser quality or more expensive than those we currently import. Risks associated with our reliance on imported products include:

disruptions in the shipping and importation of imported products because of factors such as:

raw material shortages, work stoppages, strikes and political unrest;

problems with oceanic shipping, including shipping container shortages;

increased customs inspections of import shipments or other factors causing delays in shipments;

economic crises, natural disasters, international disputes and wars; and

increases in the cost of purchasing or shipping foreign merchandise resulting from:

denial by the United States of most favored nation trading status to or the imposition of quotas or other restrictions on imports from a foreign country from which we purchase goods;

import duties, import quotas and other trade sanctions; and

increases in shipping rates.

A significant amount of the inventory we sell is imported from the People's Republic of China, which has historically been subject to efforts to increase duty rates or to impose restrictions on imports of certain products.

A small portion of the products we buy abroad are priced in foreign currencies and, therefore, we are affected by fluctuating currency exchange rates. In the past, we have entered into foreign currency exchange contracts with major financial institutions to hedge these fluctuations. We might not be able to effectively protect ourselves in the future against currency rate fluctuations, and our financial performance could suffer as a result. Even dollar-denominated foreign purchases may be affected by currency fluctuations, as suppliers seek to reflect appreciation in the local currency against the dollar in the price of the products that they provide. You should read Management's Discussion and Analysis of Financial Condition and Results of Operations for more information about our foreign currency exchange rate exposure and hedging activities.



## **Table of Contents**

### **The operation of the Company's business is heavily dependent on its information systems.**

We depend on a variety of information technology systems for the efficient functioning of our business and security of information. Much information essential to our business is maintained electronically, including competitively sensitive information and potentially sensitive personal information about customers and employees. Security breaches and incidents, such as the unlawful intrusion into a portion of our networks used to process payment card and check transactions for certain retail stores that we announced in December 2010, could expose us to liability connected to any data loss, to higher operational costs related to security enhancements, and to loss of consumer confidence in our retail concepts and brands. Our insurance policies may not provide coverage for these matters or may have coverage limits which may not be adequate to reimburse us for losses caused by security breaches. We rely on certain hardware and software vendors to maintain and periodically upgrade many of these systems so that they can continue to support our business. The software programs supporting many of our systems were licensed to the Company by independent software developers. The inability of these developers or the Company to continue to maintain and upgrade these information systems and software programs could disrupt or reduce the efficiency of our operations. In addition, costs and potential problems and interruptions associated with the implementation of new or upgraded systems and technology or with maintenance or adequate support of existing systems could also disrupt or reduce the efficiency of our operations or leave the Company vulnerable to security breaches.

We also rely heavily on our information technology staff. If we cannot meet our staffing needs in this area, we may not be able to fulfill our technology initiatives or to provide maintenance on existing systems.

### **The loss of, or disruption in, one of our distribution centers and other factors affecting the distribution of merchandise, could have a material adverse effect on our business and operations.**

Each of our operations use a single distribution center to handle all or a significant amount of its merchandise. Most of our operations' inventory is shipped directly from suppliers to their distribution centers, where the inventory is then processed, sorted and shipped to our stores or to our wholesale customers. We depend on the orderly operation of this receiving and distribution process, which depends, in turn, on adherence to shipping schedules and effective management of the distribution centers. Although we believe that our receiving and distribution process is efficient and well positioned to support our current business and our expansion plans, we cannot offer assurance that we have anticipated all of the changing demands which our expanding operations will impose on our receiving and distribution system, or that events beyond our control, such as disruptions in operations due to fire or other catastrophic events, labor disagreements or shipping problems (whether in our own or in our third party vendors' or carriers' businesses), will not result in delays in the delivery of merchandise to our stores or to our wholesale customers. We also make changes in our distribution processes from time to time in an effort to improve efficiency, maximize capacity, etc. We cannot assure that these changes will not result in unanticipated delays or interruptions in distribution. We depend upon UPS for shipment of a significant amount of merchandise. An interruption in service by UPS for any reason could cause temporary disruptions in our business, a loss of sales and profits, and other material adverse effects.

Our freight cost is impacted by changes in fuel prices through surcharges. Fuel prices and surcharges affect freight cost both on inbound freight from vendors to our distribution centers and outbound freight from our distribution centers to our stores and wholesale customers.

---

**Table of Contents**

Increases in fuel prices and surcharges and other factors may increase freight costs and thereby increase our cost of goods sold.

**Any acquisitions we make or new businesses we launch involve a degree of risk.**

Acquisitions have been a component of the Company's growth strategy in recent years and we expect that we may continue to engage in acquisitions or launch new businesses to grow our revenues and meet our other strategic objectives. If any future acquisitions are not successfully integrated with our business, our ongoing operations could be adversely affected. Additionally, acquisitions or new businesses may not achieve desired profitability objectives or result in any anticipated successful expansion of the businesses or concepts. Although we review and analyze assets or companies we acquire, such reviews are subject to uncertainties and may not reveal all potential risks. Additionally, although we attempt to obtain protective contractual provisions, such as representations, warranties and indemnities, in connection with acquisitions, we cannot offer assurance that we can obtain such provisions in our acquisitions or that they will fully protect us from unforeseen costs of the acquisitions. We may also incur significant costs and diversion of management time and attention in connection with pursuing possible acquisitions even if the acquisition is not ultimately consummated.

**We face a number of risks in opening new stores.**

As part of our long-term growth strategy, we expect to open new stores, both in regional malls, where most of our operational experience lies, and in other venues with which we are less familiar, including lifestyle centers, major city street locations, and tourist destinations. However, because of economic conditions and the availability of appropriate locations, we have slowed our pace of new store openings over the past two fiscal years, and intend to continue to be selective with respect to new locations, and to open fewer stores than in past years in Fiscal 2013. We increased our net store base by 42 in Fiscal 2010, 33 in Fiscal 2011 and 78 in Fiscal 2012; and currently plan to increase our net store base by approximately 59 stores in Fiscal 2013. We cannot predict when we will resume a more aggressive store-opening pace or whether, when we do, we will be able to continue our history of operating new stores profitably. Further, we cannot assure you that any new store will achieve similar operating results to those of our existing stores or that new stores opened in markets in which we operate will not have a material adverse effect on the revenues and profitability of our existing stores. The success of our planned expansion will be dependent upon numerous factors, many of which are beyond our control, including the following:

our ability to identify suitable markets and individual store sites within those markets;

the competition for suitable store sites;

our ability to negotiate favorable lease terms for new stores and renewals (including rent and other costs) with landlords;

our ability to obtain governmental and other third-party consents, permits and licenses needed to construct and operate our stores;

the ability to build and remodel stores on schedule and at acceptable cost;

the availability of employees to staff new stores and our ability to hire, train, motivate and retain store personnel;

## **Table of Contents**

the availability of adequate management and financial resources to manage an increased number of stores;

our ability to adapt our distribution and other operational and management systems to an expanded network of stores; and

our ability to attract customers and generate sales sufficient to operate new stores profitably.

Additionally, the results we expect to achieve during each fiscal quarter are dependent upon opening new stores on schedule. If we fall behind, we will lose expected sales and earnings between the planned opening date and the actual opening and may further complicate the logistics of opening stores, possibly resulting in additional delays.

### **Our results of operations are subject to seasonal and quarterly fluctuations, which could have a material adverse effect on the market price of our stock.**

Our business is highly seasonal, with a significant portion of our net sales and operating income generated during the fourth quarter, which includes the holiday shopping season. Because a significant percentage of our net sales and operating income is generated in the fourth quarter, we have limited ability to compensate for shortfalls in fourth quarter sales or earnings by changes in our operations or strategies in other quarters. A significant shortfall in results for the fourth quarter of any year could have a material adverse effect on our annual results of operations and on the market price of our stock. Our quarterly results of operations also may fluctuate significantly based on such factors as:

the timing of new store openings and renewals;

the amount of net sales contributed by new and existing stores;

the timing of certain holidays and sales events;

changes in our merchandise mix;

general economic, industry and weather conditions that affect consumer spending; and

actions of competitors, including promotional activity.

### **A failure to increase sales at our existing stores may adversely affect our stock price and impact our results of operations.**

A number of factors have historically affected, and will continue to affect, our comparable store sales results, including:

consumer trends, such as less disposable income due to the impact of economic conditions;

competition;

timing of holidays including sales tax holidays;

general regional and national economic conditions;

inclement weather;

changes in our merchandise mix;

our ability to distribute merchandise efficiently to our stores;

**Table of Contents**

timing and type of sales events, promotional activities or other advertising;

other external events beyond our control;

new merchandise introductions; and

our ability to execute our business strategy effectively.

Our comparable store sales results have fluctuated in the past, and we believe such fluctuations may continue. The unpredictability of our comparable store sales may cause our revenue and results of operations to vary from quarter to quarter, and an unanticipated change in revenues or operating income may cause our stock price to fluctuate significantly.

**We are subject to regulatory proceedings and litigation that could have an adverse effect on our financial condition and results of operations.**

We are party to certain lawsuits, governmental investigations, and regulatory proceedings, including the suits and proceedings arising out of alleged environmental contamination relating to historical operations of the Company and various suits involving current operations as disclosed in Note 13 to the Consolidated Financial Statements. We are also subject to possible claims, as also described in Note 13 to the Consolidated Financial Statements, arising out of the unlawful intrusion into a portion of our computer network which we announced in December 2010. If these or similar matters are resolved against us, our results of operations or our financial condition could be adversely affected. The costs of defending such lawsuits and responding to such investigations and regulatory proceedings may be substantial and their potential to distract management from day-to-day business is significant. Moreover, with retail operations in 50 states, Puerto Rico, Canada, the United Kingdom and the Republic of Ireland, we are subject to federal, state, provincial, territorial, local and foreign regulations which impose costs and risks on our business. Changes in regulations could make compliance more difficult and costly, and inadvertent violations could result in liability for damages or penalties.

**If we lose key members of management or are unable to attract and retain the talent required for our business, our operating results could suffer.**

Our performance depends largely on the efforts and abilities of members of our management team. Our executives have substantial experience and expertise in our business and have made significant contributions to our growth and success. The unexpected future loss of services of one or more key members of our management team could have an adverse effect on our business. In addition, future performance will depend upon our ability to attract, retain and motivate qualified employees, including store personnel and field management. If we are unable to do so, our ability to meet our operating goals may be compromised. Finally, our stores are decentralized, are managed through a network of geographically dispersed management personnel and historically experience a high degree of turnover. If we are for any reason unable to maintain appropriate controls on store operations due to turnover or other reasons, including the ability to control losses resulting from inventory and cash shrinkage, our sales and operating margins may be adversely affected. There can be no assurance that we will be able to attract and retain the personnel we need in the future.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

---

**Table of Contents**

**ITEM 2. PROPERTIES**

See Item 1, Business Properties.

**ITEM 3. LEGAL PROCEEDINGS**

**Environmental Matters**

*New York State Environmental Matters*

In August 1997, the New York State Department of Environmental Conservation ( NYSDEC ) and the Company entered into a consent order whereby the Company assumed responsibility for conducting a remedial investigation and feasibility study ( RIFS ) and implementing an interim remedial measure ( IRM ) with regard to the site of a knitting mill operated by a former subsidiary of the Company from 1965 to 1969. The Company undertook the IRM and RIFS voluntarily, without admitting liability or accepting responsibility for any future remediation of the site. The Company has completed the IRM and the RIFS. In the course of preparing the RIFS, the Company identified remedial alternatives with estimated undiscounted costs ranging from \$-0- to \$24.0 million, excluding amounts previously expended or provided for by the Company. The United States Environmental Protection Agency ( EPA ), which has assumed primary regulatory responsibility for the site from NYSDEC, issued a Record of Decision in September 2007. The Record of Decision requires a remedy of a combination of groundwater extraction and treatment and in-site chemical oxidation at an estimated 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 asserted that the Company is liable for the costs associated with enhanced treatment required by the impact of the groundwater plume from the site on two public water supply wells, including historical costs ranging from approximately \$1.8 million to in excess of \$2.5 million, and future operation and maintenance costs which the Village estimates at \$126,400 annually while the enhanced treatment continues. On December 14, 2007, the Village filed a complaint against the Company and the owner of the property under the Resource Conservation and Recovery Act ( RCRA ), the Safe Drinking Water Act, and the Comprehensive Environmental Response, Compensation and Liability Act ( CERCLA ) as well as a number of state law theories in the U.S. District Court for the Eastern District of New York, seeking an injunction requiring the defendants to remediate contamination from the site and to establish their liability for future costs that may be incurred in connection with it, which the complaint alleges could exceed \$41 million over a 70-year period. The Company has not verified the estimates of either historic or future costs asserted by the Village, but believes that an estimate of future costs based on a 70-year remediation period is unreasonable given the expected remedial period reflected in the EPA s Record of Decision. On May 23, 2008, the Company filed a motion to dismiss the Village s complaint on grounds including applicable statutes of limitation and preemption of certain claims by the NYSDEC s and the EPA s diligent prosecution of remediation. On January 27, 2009, the Court granted the motion to dismiss all counts of the plaintiff s complaint except for the CERCLA claim and a state law claim for indemnity for costs incurred after November 27, 2000. On September 23, 2009, on a motion for reconsideration by the Village, the Court reinstated the claims for injunctive relief under RCRA and for equitable relief under certain of the state law theories. The Company intends to continue to defend the action.

---

## **Table of Contents**

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

### *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 \$13.0 million as of January 28, 2012, \$15.5 million as of January 29, 2011 and \$15.9 million as of January 30, 2010. All such provisions reflect the Company s estimates of the most likely cost (undiscounted, including both current and noncurrent portions) of resolving the contingencies, based on facts and circumstances as of the time they were made. There is no assurance that relevant facts and circumstances will not change, necessitating future changes to the provisions. Such contingent liabilities are included in the liability arising from provision for discontinued operations on the accompanying Consolidated Balance Sheets. The Company has made pretax accruals for certain of these contingencies, including approximately \$1.8 million reflected in Fiscal 2012, \$2.9 million in Fiscal 2011 and \$0.8 million in Fiscal 2010. These charges are included in provision for discontinued operations, net in the Consolidated Statements of Operations.

### **California Actions**

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

## **Table of Contents**

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 in principle to settle both actions, subject to documentation and court approval. The Company expects that the proposed settlement will not have a material effect on its financial condition or results of operations.

On June 22, 2011, the Company removed to the U.S. District Court for the Eastern District of California *Overton v. Hat World, Inc.*, a putative class action against its subsidiary, Hat World, Inc., alleging various violations of the California Labor Code, including failure to comply with certain itemized wage statement requirements, failure to reimburse expenses, forced patronization, and failure to provide adequate seats to employees. The Company and plaintiffs' counsel have reached an agreement in principle to settle the action, subject to definitive documentation and court approval. The Company expects that the proposed settlement will not have a material effect on its financial condition or results of operations.

## **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. 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 additional claims, if any, 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 intends to defend the matter.

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

## **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.



---

**Table of Contents**

**ITEM 4A. EXECUTIVE OFFICERS**

The officers of the Company are generally elected at the first meeting of the board of directors following the annual meeting of shareholders and hold office until their successors have been chosen and qualified. The name, age and office of each of the Company's executive officers and certain information relating to the business experience of each are set forth below:

**Robert J. Dennis**, 58, *Chairman, President and Chief Executive Officer*. Mr. Dennis joined the Company in 2004 as chief executive officer of the Company's acquired Hat World business. Mr. Dennis was named senior vice president of the Company in June 2004 and executive vice president and chief operating officer, with oversight responsibility for all the Company's operating divisions, in October 2005. Mr. Dennis was named president of the Company in October 2006 and chief executive officer in August 2008. Mr. Dennis was named chairman in February 2010, which became effective April 1, 2010. Mr. Dennis joined Hat World in 2001 from Asbury Automotive, where he was employed in senior management roles beginning in 1998. Mr. Dennis was with McKinsey and Company, an international consulting firm, from 1984 to 1997, and became a partner in 1990.

**James S. Gulmi**, 66, *Senior Vice President - Finance and Chief Financial Officer*. Mr. Gulmi joined the Company in 1971 as a financial analyst, appointed assistant treasurer in 1974 and named treasurer in 1979. He was elected a vice president in 1983 and assumed the responsibilities of chief financial officer in 1986. Mr. Gulmi was appointed senior vice president - finance in January 1996.

**Jonathan D. Caplan**, 58, *Senior Vice President*. Mr. Caplan rejoined the Company in 2002 as chief executive officer of the branded group and president of Johnston & Murphy and was named senior vice president of the Company in November 2003. Mr. Caplan first joined the Company in June 1982 and served as president of Genesco's Laredo-Code West division from December 1985 to May 1992. After that time, Mr. Caplan was president of Stride Rite's Children's Group and then its Keds Footwear division, from 1992 to 1996. He was vice president, New Business Development and Strategy, for Service Merchandise Corporation from 1997 to 1998. Prior to rejoining Genesco in October 2002, Mr. Caplan served as president and chief executive officer of Hi-Tec Sports North America beginning in 1998.

**James C. Estepa**, 60, *Senior Vice President*. Mr. Estepa joined the Company in 1985 and in February 1996 was named vice president operations of Genesco Retail, which included the Jarman Shoe Company, Journeys, Boot Factory and General Shoe Warehouse. Mr. Estepa was named senior vice president operations of Genesco Retail in June 1998. He was named president of Journeys in March 1999. Mr. Estepa was named senior vice president of the Company in April 2000. He was named president and chief executive officer of the Genesco Retail Group in 2001, assuming additional responsibilities of overseeing Underground Station.

**Kenneth J. Kocher**, 46, *Senior Vice President*. Mr. Kocher joined Hat World in 1997 as chief financial officer and was named president in October 2005. He was named senior vice president of the Company in October 2006 in addition to continuing his role as president of Hat World. Prior to joining Hat World, he served as a controller with several companies and was a certified public accountant with Edie Bailley, a public accounting firm.

**Table of Contents**

**Roger G. Sisson**, 48, *Senior Vice President, Secretary and General Counsel*. Mr. Sisson joined the Company in 1994 as assistant general counsel and was elected secretary in February 1994. He was named general counsel in January 1996. Mr. Sisson was named vice president in November 2003. He was named senior vice president in October 2006.

**Mimi Eckel Vaughn**, 45, *Senior Vice President of Strategy and Shared Services*. Ms. Vaughn joined the Company in September 2003 as vice president of strategy and business development. She was named senior vice president, strategy and business development in October 2006 and senior vice president of strategy and shared services in April 2009. Prior to joining the Company, Ms. Vaughn was executive vice president of business development and marketing, and acting chief financial officer from 2000 to 2001 for Link2Gov Corporation in Nashville. From 1993 to 1999, she was a consultant at McKinsey and Company in Atlanta.

**Paul D. Williams**, 57, *Vice President and Chief Accounting Officer*. Mr. Williams joined the Company in 1977, was named director of corporate accounting and financial reporting in 1993 and chief accounting officer in April 1995. He was named vice president in October 2006.

**Matthew N. Johnson**, 47, *Treasurer*. Mr. Johnson joined the Company in 1993 as manager, corporate finance and was elected assistant treasurer in December 1993. He was elected treasurer in June 1996. He was named vice president finance in October 2006 and renamed treasurer in April 2011. Prior to joining the Company, Mr. Johnson was a vice president in the corporate and institutional banking division of The First National Bank of Chicago.

**Table of Contents****PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Information**

The Company's common stock is listed on the New York Stock Exchange (Symbol: GCO) and the Chicago Stock Exchange. The following table sets forth for the periods indicated the high and low sales prices of the common stock as shown in the New York Stock Exchange Composite Transactions listed in the Wall Street Journal.

**Fiscal Year ended January 29**

|                  | High     | Low      |
|------------------|----------|----------|
| 2011 1st Quarter | \$ 35.00 | \$ 21.00 |
| 2nd Quarter      | 34.07    | 24.72    |
| 3rd Quarter      | 34.10    | 24.49    |
| 4th Quarter      | 41.20    | 31.90    |

**Fiscal Year ended January 28**

|                  | High     | Low      |
|------------------|----------|----------|
| 2012 1st Quarter | \$ 44.75 | \$ 35.76 |
| 2nd Quarter      | 56.84    | 39.12    |
| 3rd Quarter      | 62.51    | 39.41    |
| 4th Quarter      | 64.93    | 54.32    |

There were approximately 3,000 common shareholders of record on March 16, 2012.

The Company has not paid cash dividends in respect of its common stock since 1973. The Company's ability to pay cash dividends in respect of its common stock is subject to various restrictions. See Notes 6 and 8 to the Consolidated Financial Statements included in Item 8 and

Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Future Capital Needs for information regarding restrictions on dividends and redemptions of capital stock.

**Recent Sales of Unregistered Securities**

None

**Issuer Purchases of Equity Securities**

The Company did not repurchase any shares during the fourth quarter ended January 28, 2012.

**Stock Performance Graph**

Refer to the Company's 2012 Annual Report to Shareholders, which is incorporated herein by reference solely as it relates to this item.

**Table of Contents****ITEM 6. SELECTED FINANCIAL DATA****Financial Summary**

| In Thousands except per common share data,<br>financial statistics and other data | 2012         | 2011         | Fiscal Year End<br>2010 | 2009         | 2008         |
|---|--------------|--------------|-------------------------|--------------|--------------|
| <b>Results of Operations Data</b>   |              |              |                         |              |              |
| Net sales   | \$ 2,291,987 | \$ 1,789,839 | \$ 1,574,352            | \$ 1,551,562 | \$ 1,502,119 |
| Depreciation and amortization   | 53,737       | 47,738       | 47,462                  | 46,833       | 45,114       |
| Earnings from operations  | 143,870      | 86,083       | 60,422                  | 259,626      | 41,821       |
| Earnings from continuing operations before income taxes                           | 138,778      | 84,961       | 50,488                  | 250,714      | 29,920       |
| Earnings from continuing operations   | 82,984       | 54,547       | 29,086                  | 156,219      | 6,774        |
| Provision for discontinued operations, net  | (1,025)      | (1,336)      | (273)                   | (5,463)      | (1,603)      |
| Net earnings  | \$ 81,959    | \$ 53,211    | \$ 28,813               | \$ 150,756   | \$ 5,171     |
| <b>Per Common Share Data</b>  |              |              |                         |              |              |
| Earnings from continuing operations   |              |              |                         |              |              |
| Basic   | \$ 3.56      | \$ 2.34      | \$ 1.35                 | \$ 8.11      | \$ .29       |
| Diluted   | 3.48         | 2.29         | 1.31                    | 6.72         | .29          |
| Discontinued operations   |              |              |                         |              |              |
| Basic   | (.04)        | (.06)        | (.02)                   | (.28)        | (.07)        |
| Diluted   | (.05)        | (.05)        | (.01)                   | (.23)        | (.07)        |
| Net earnings  |              |              |                         |              |              |
| Basic   | 3.52         | 2.28         | 1.33                    | 7.83         | .22          |
| Diluted   | 3.43         | 2.24         | 1.30                    | 6.49         | .22          |
| <b>Balance Sheet Data</b>   |              |              |                         |              |              |
| Total assets  | \$ 1,237,265 | \$ 961,082   | \$ 863,652              | \$ 816,063   | \$ 801,685   |
| Long-term debt  | 40,704       | -0-          | -0-                     | 113,735      | 147,271      |
| Non-redeemable preferred stock  | 4,957        | 5,183        | 5,220                   | 5,203        | 5,338        |
| Common equity   | 710,404      | 619,135      | 577,093                 | 444,552      | 420,778      |
| Capital expenditures  | 49,456       | 29,299       | 33,825                  | 49,420       | 80,662       |
| <b>Financial Statistics</b>   |              |              |                         |              |              |
| Earnings from operations as a percent of net sales                                | 6.3%         | 4.8%         | 3.8%                    | 16.7%        | 2.8%         |
| Book value per share (common equity divided by<br>common shares outstanding)      | \$ 29.27     | \$ 26.15     | \$ 23.97                | \$ 23.10     | \$ 18.46     |
| Working capital (in thousands)  | \$ 290,850   | \$ 278,692   | \$ 280,415              | \$ 259,137   | \$ 238,093   |
| Current ratio   | 2.0          | 2.2          | 2.7                     | 2.9          | 2.6          |
| Percent long-term debt to total capitalization                                    | 5.4%         | 0.0%         | 0.0%                    | 20.2%        | 25.7%        |
| <b>Other Data (End of Year)</b>   |              |              |                         |              |              |
| Number of retail outlets*   | 2,387        | 2,309        | 2,276                   | 2,234        | 2,175        |
| Number of employees   | 21,475       | 15,200       | 13,925                  | 13,775       | 13,950       |

\* Includes 75 Schuh stores and concessions in Fiscal 2012 acquired June 23, 2011, 48 Sports Avenue stores in Fiscal 2011 acquired October 8, 2010, and 37 Sports Fan Attic stores in Fiscal 2010 acquired November 3, 2009. See Note 2 to the Consolidated Financial Statements.

Reflected in earnings from continuing operations for Fiscal 2012 was \$7.4 million in acquisition related expenses. See Note 2 to the Consolidated Financial Statements for additional information.

Reflected in earnings from continuing operations for Fiscal 2009 was a \$204.1 million gain on the settlement of merger-related litigation.

## Edgar Filing: GENESCO INC - Form 10-K

Reflected in earnings from continuing operations for Fiscal 2009 and 2008 were \$8.0 million and \$27.6 million, respectively, in merger-related costs and litigation expenses. These expenses were deductible for tax purposes in Fiscal 2009.

Reflected in earnings from continuing operations for Fiscal 2012, 2011, 2010, 2009 and 2008 were restructuring and other charges of \$2.7 million, \$8.6 million, \$13.4 million, \$7.5 million and \$9.7 million, respectively. See Note 3 to the Consolidated Financial Statements for additional information regarding these charges.

Long-term debt includes current obligations. In January 2011, the Company entered into the second amended and restated credit agreement in the aggregate principal amount of \$300.0 million. In June 2011, the Company entered into a first amendment to the second amended and restated credit agreement to raise the aggregate principal amount to \$375.0 million. During Fiscal 2010, the Company entered into separate exchange agreements whereby it acquired and retired all \$86.2 million in aggregate principal amount of its Debentures due June 15, 2023 in exchange for the issuance of 4,552,824 shares of its common stock. As a result of the exchange agreements and conversions, the Company recognized a loss on the early retirement of debt of \$5.5 million reflected in earnings from continuing operations. See Note 6 to the Consolidated Financial Statements for additional information regarding the Company's debt.

The Company has not paid dividends on its Common Stock since 1973. See Notes 6 and 8 to the Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Sources of Liquidity for a description of limitations on the Company's ability to pay dividends.

**Table of Contents****ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****Forward Looking Statements**

This discussion and the notes to the Consolidated Financial Statements, as well as Item 1, Business, include certain forward-looking statements, which include statements regarding our intent, belief or expectations and all statements other than those made solely with respect to historical fact. Actual results could differ materially from those reflected by the forward-looking statements in this discussion and a number of factors may adversely affect the forward looking statements and the Company's future results, liquidity, capital resources or prospects. These include, but are not limited to, the amount of required accruals related to the earn-out bonus potentially payable to Schuh management in four years based on the achievement of certain performance objectives, the costs of responding to and liability in connection with the network intrusion announced in December 2010, 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 financial condition of significant wholesale customers, disruptions in product supply or distribution, unfavorable trends in fuel costs, foreign exchange rates, foreign labor and materials costs, and other factors affecting the cost of products, the Company's ability to continue to complete and integrate acquisitions, expand its business and diversify its product base and changes in the timing of holidays or in the onset of seasonal weather affecting period-to-period sales comparisons. Additional factors that could affect the Company's prospects and cause differences from expectations include the 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, and the outcome of litigation, investigations and environmental matters involving the Company. For a discussion of additional risk factors, see Item 1A, Risk Factors.

**Overview***Description of Business*

The Company's business includes the design and sourcing, marketing and distribution of footwear and accessories through retail stores, including Journeys®, Journeys Kidz®, Shi by Journeys®, Johnston & Murphy®, and Underground Station® in the U.S., Puerto Rico and Canada and through the newly acquired Schuh® 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 brand and the Docke® brand and other brands that the Company licenses for men's footwear. The Company's wholesale footwear brands are distributed to more than 970 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® 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 January 28, 2012, the Company operated 2,387 retail stores in the U.S., Puerto Rico, Canada, the United Kingdom and the Republic of Ireland.

---

**Table of Contents**

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

The Journeys retail footwear stores sell footwear and accessories primarily for 13 to 22 year old men and women. The stores average approximately 1,950 square feet. The Journeys Kidz retail footwear stores sell footwear primarily for younger children, ages five to 12. These stores average approximately 1,425 square feet. Shi by Journeys retail footwear stores sell footwear and accessories to fashion-conscious women in their early 20 s to mid 30 s. These stores average approximately 2,150 square feet. The Journeys Group stores are primarily in malls and factory outlet centers throughout the United States, Puerto Rico and Canada. Journeys also sells footwear and accessories through direct-to-consumer catalog and e-commerce operations.

The Underground Station retail footwear stores sell footwear and accessories primarily for men and women in the 20 to 35 age group in the urban market. The Underground Station Group stores average approximately 1,825 square feet. Underground Station also sells footwear and accessories through an e-commerce operation. The Company has announced the integration of the Underground Station operations into the Journeys Group segment during Fiscal 2013. The former Underground Station stores will be a subset of Journeys Group under the brand Underground by Journeys. Product in the new Underground by Journeys stores will resemble a traditional Journeys store with appropriate merchandise changes to reflect mall and store demographics, targeting a somewhat older customer base than Journeys stores. The Company plans to continue to close underperforming Underground by Journeys locations.

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 4,575 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 825 square feet and are primarily in malls, airports, street level stores and factory outlet centers throughout the United States, Puerto Rico and Canada. The 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 2,850 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.

---

**Table of Contents**

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 shops. Johnston & Murphy shops average approximately 1,475 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 sells Johnston & Murphy footwear and accessories in factory stores, averaging approximately 2,350 square feet, located in factory outlet malls, and through a direct-to-consumer catalog and e-commerce operation. 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 in certain other Latin American countries. The Dockers license agreement was renewed May 15, 2009. The Dockers license agreement, as amended, expires on December 31, 2012.

*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. Beginning in Fiscal 2010, the Company slowed the pace of new store openings and focused on inventory management and cash flow in response to economic conditions. The Company 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, other than the Lids Sports Group, have opened retail stores in Canada, beginning in Fiscal 2011.

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

More generally, the Company attempts to develop strategies to mitigate the risks it views as material, including those discussed under the caption Forward Looking Statements, above, and those discussed in Item 1A, Risk Factors. Among the most important of these factors are those related to consumer demand. Conditions in the external economy can affect demand, resulting in changes in sales and, as prices are adjusted to drive sales and manage inventories, in gross margins. Because fashion trends influencing many of the Company's target customers can change rapidly,



---

## **Table of Contents**

the Company believes that its ability to react quickly to those changes has been important to its success. Even when the Company succeeds in aligning its merchandise offerings with consumer preferences, those preferences may affect results by, for example, driving sales of products with lower average selling prices. Moreover, economic factors, such as the current relatively high level of 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 28.1% during Fiscal 2012 compared to Fiscal 2011. The increase reflected (i) the acquisition of the Schuh Group in the second quarter this year, which contributed \$212.3 million in sales during Fiscal 2012, (ii) a 26% increase in Lids Sports Group sales, (iii) a 15% increase in Journeys Group sales, (iv) a 9% increase in Johnston & Murphy Group sales, partially offset by a 4% decrease in Licensed Brands sales and a 2% decrease in Underground Station Group sales. Gross margin as a percentage of sales was flat during Fiscal 2012. Selling and administrative expenses decreased as a percentage of net sales during Fiscal 2012, reflecting expense decreases as a percentage of net sales in all of the Company's business segments operated throughout Fiscal 2011 and Fiscal 2012, except Licensed Brands. Earnings from operations increased as a percentage of net sales during Fiscal 2012, reflecting improved earnings from operations in all the Company's business segments operated throughout Fiscal 2011 and Fiscal 2012, except Licensed Brands.

### **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 until satisfaction of certain closing conditions. 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. During the fiscal year ended January 28, 2012, compensation expense related to the Schuh acquisition deferred purchase price obligation was \$7.2 million. This expense is included in operating income for the Schuh Group segment.

Headquartered in Scotland, Schuh is a specialty retailer of casual and athletic footwear sold through 64 retail stores in the United Kingdom and the Republic of Ireland and 14 concessions in Republic apparel stores as of January 28, 2012. The Company believes the acquisition will 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 fiscal year from the date of acquisition through January 28, 2012, including net sales of \$212.3 million and operating income of \$11.7 million, have been

---

**Table of Contents**

included in the Company's Consolidated Financial Statements for the fiscal year ended January 28, 2012. During the fiscal year ended January 28, 2012, the Company expensed \$7.4 million in costs related to the acquisition. These costs were recorded as selling and administrative expenses on the Consolidated Statements of Operations.

*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. 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 additional claims, if any, to have a material effect on its financial condition or results of operations.

*Other Acquisitions*

In Fiscal 2011, the Company completed other acquisitions for a total purchase price of \$75.5 million, which included \$4.9 million in payments during Fiscal 2011 for amounts withheld in acquisitions from previous years for certain closing contingencies. The acquisitions consisted primarily of the assets of Brand Innovators Inc., a West Coast team dealer business and the assets of Anaconda Sports, Inc., a New York team dealer business, both as part of the Lids Sports Group, the stock of Keuka Footwear, Inc., an occupational footwear company for service based industries, to be operated within the Licensed Brands segment and the assets of Sports Avenue, a 48 store retail chain with 12 e-commerce sites, selling officially licensed NFL, NCAA, MLB, NBA, NHL and NASCAR headwear, apparel and accessories, to be operated within the Lids Sports Group.

*Restructuring and Other Charges*

The Company recorded a pretax charge to earnings of \$2.7 million in Fiscal 2012. The charge reflected in restructuring and other, net, included \$1.1 million for retail store asset impairments, \$0.9 million for other legal matters and \$0.7 million for expenses related to the computer network intrusion.

The Company recorded a pretax charge to earnings of \$8.6 million in Fiscal 2011. The charge reflected in restructuring and other, net, included \$7.2 million for retail store asset impairments, \$1.3 million for expenses related to the computer network intrusion and \$0.1 million for other legal matters.

The Company recorded a pretax charge to earnings of \$13.5 million in Fiscal 2010. The charge reflected in restructuring and other, net, included \$13.3 million for retail store asset impairments and \$0.4 million for lease terminations offset by \$0.3 million for other legal matters. Also included in the charge was \$0.1 million in excess markdowns related to the lease terminations, which is reflected in cost of sales on the Consolidated Statements of Operations.

---

**Table of Contents**

*Postretirement Benefit Liability Adjustments*

The return on pension plan assets was \$6.1 million for Fiscal 2012, compared to an expected return of \$7.8 million. The discount rate used to measure benefit obligations decreased from 5.25% to 4.35% in Fiscal 2012. As a result of the decrease in discount rate and the short fall from expected return on plan assets, the pension liability reflected in the Consolidated Balance Sheets increased to \$22.2 million compared to \$11.9 million in Fiscal 2011. There was an increase in the pension liability adjustment of \$4.7 million (net of tax) in accumulated other comprehensive loss in equity. Depending upon future interest rates and returns on plan assets and other factors, there can be no assurance that additional adjustments in future periods will not be required.

*Discontinued Operations*

In Fiscal 2012, the Company recorded an additional charge to earnings of \$1.7 million (\$1.0 million net of tax) reflected in discontinued operations, including \$1.8 million primarily for anticipated costs of environmental remedial alternatives related to former facilities operated by the Company, offset by a \$0.1 million gain for excess provisions to prior discontinued operations. For additional information, see Note 13 to the Consolidated Financial Statements.

In Fiscal 2011, the Company recorded an additional charge to earnings of \$2.2 million (\$1.3 million net of tax) reflected in discontinued operations, including \$2.9 million primarily for anticipated costs of environmental remedial alternatives related to former facilities operated by the Company, offset by a \$0.7 million gain for excess provisions to prior discontinued operations. For additional information, see Note 13 to the Consolidated Financial Statements.

In Fiscal 2010, the Company recorded an additional charge to earnings of \$0.5 million (\$0.3 million net of tax) reflected in discontinued operations, including \$0.8 million primarily for anticipated costs of environmental remedial alternatives related to former facilities operated by the Company, offset by a \$0.3 million gain for excess provisions to prior discontinued operations. For additional information, see Note 13 to the Consolidated Financial Statements.

*Conversion of 4 1/8% Debentures*

On April 29, 2009, the Company entered into separate exchange agreements whereby it acquired and retired \$56.4 million in aggregate principal amount (\$51.3 million fair value) of its 4 1/8% Convertible Subordinated Debentures, (the Debentures ) due June 15, 2023 in exchange for the issuance of 3,066,713 shares of its common stock, which include 2,811,575 shares that were reserved for conversion of the Debentures and 255,138 additional inducement shares, and a cash payment of approximately \$0.9 million. The inducement was not deductible for tax purposes. During the fourth quarter of Fiscal 2010, holders of an aggregate of \$21.04 million principal amount of its 4 1/8% Convertible Subordinated Debentures were converted to 1,048,764 shares of common stock pursuant to separate conversion agreements which provided for payment of an aggregate of \$0.3 million to induce conversion. On November 4, 2009, the Company issued a notice of redemption to the remaining holders of the \$8.775 million outstanding 4 1/8% Convertible Subordinated Debentures. As permitted by the Indenture, holders of all except \$1,000 in principal amount of the remaining Debentures converted their Debentures to 437,347 shares of common stock prior to the redemption date of December 3, 2009. As a result of the exchange agreements and conversions, the Company recognized a loss on the early retirement of debt of \$5.5 million in Fiscal 2010, reflected on the Consolidated Statements of Operations. After the exchanges and conversions, there was zero aggregate principal amount of Debentures outstanding. See Note 6 to the Consolidated Financial Statements for additional information.

---

## **Table of Contents**

### **Critical Accounting Policies**

#### *Inventory Valuation*

As discussed in Note 1 to the Consolidated Financial Statements, 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.

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. A change of 10 percent from the recorded provisions for markdowns, shrinkage and damaged goods would have changed inventory by \$1.0 million at January 28, 2012.

#### *Impairment of Long-Lived Assets*

As discussed in Note 1 to the Consolidated Financial Statements, 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.

---

**Table of Contents**

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

If the carrying value of the business 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 business unit goodwill to the carrying value of the goodwill in the same manner as if the business 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 business unit, including any unrecognized intangible assets, in a hypothetical analysis that would calculate the implied fair value of goodwill. If the implied fair value of goodwill is less than the recorded goodwill, the Company would record an impairment charge for the difference.

A key assumption in the Company's fair value estimate is the weighted average cost of capital utilized for discounting its cash flow projections in its income approach. The Company believes the rate it used in its annual test, which is completed in the fourth quarter each year, was consistent with the risks inherent in its business and with industry discount rates. The Company performed sensitivity analyses on its estimated fair value using the income approach. Holding all other assumptions constant as of the measurement date, the Company noted that an increase in the weighted average cost of capital of 100 basis points would not result in impairment of its goodwill.

*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 13 to the Company's Consolidated Financial Statements. The Company has made pretax accruals for certain of these contingencies, including approximately \$1.8 million reflected in Fiscal 2012, \$2.9 million reflected in Fiscal 2011 and \$0.8 million reflected in Fiscal 2010. 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.

---

**Table of Contents**

*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 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 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 Consolidated Balance Sheets. The Company then assesses the likelihood that its deferred tax assets will be recovered from future taxable income. Actual results could differ from this assessment if adequate taxable income is not generated in future periods. To the extent the Company believes that recovery of an asset is at risk, valuation allowances are established. To the extent valuation allowances are established or increased in a period, the Company includes an expense within the tax provision in the 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 other 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 January 28, 2012, the Company had a deferred tax valuation allowance of \$3.8 million. The Company recorded an effective income tax rate of 40.2% for Fiscal 2012 compared to 35.8% for Fiscal 2011. This year's rate is higher due to transaction costs and deferred purchase price related to the Schuh acquisition which are considered permanent differences. The rate for Fiscal 2011 was unusually low reflecting the net reduction of the Company's liability for uncertain tax positions of \$1.3 million in Fiscal 2011.

Income tax reserves are determined using the methodology required by the Income Tax Topic of the Accounting Standards Codification (Codification). This methodology requires companies to assess each income tax position taken using a two step process. A determination is first made as to whether it is more likely than not that the position will be sustained, based upon the technical merits, upon examination by the taxing authorities. If the tax position is expected to meet the more likely than not criteria, the benefit recorded for the tax position equals the largest amount that is greater than 50% likely to be realized upon ultimate settlement of the respective tax position. Uncertain tax positions require determinations and estimated liabilities to be made based on provisions of the tax law which may be subject to change or varying interpretation. If the Company's determinations and estimates prove to be inaccurate, the resulting adjustments could be

---

**Table of Contents**

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. See Note 9 to the Company's Consolidated Financial Statements for additional information regarding income taxes.

*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.

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 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.

**Long Term Rate of Return Assumption** Pension expense increases as the expected rate of return on pension plan assets decreases. The Company estimates that the pension plan assets will generate a long-term rate of return of 8.25%. The Company has lowered its long-term rate of return assumption to 7.75% for Fiscal 2013. To develop this assumption, the Company considered historical asset returns, the current asset allocation and future expectations of asset returns. The expected long-term rate of return on plan assets is based on a long-term investment policy of 50% U.S. equities, 13% international equities, 35% U.S. fixed income securities and 2% cash equivalents. For Fiscal 2012, if the expected rate of return had been decreased by 1%, net pension expense would have increased by \$1.0 million, and if the expected rate of return had been increased by 1%, net pension expense would have decreased by \$1.0 million.

**Discount Rate** Pension liability and future pension expense increase as the discount rate is reduced. The Company discounted future pension obligations using a rate of 4.35%, 5.25% and 5.625% for Fiscal 2012, 2011 and 2010, respectively. The discount rate at January 28, 2012 was determined based on a yield curve of high quality corporate bonds with cash flows matching the Company's plans' expected benefit payments. For Fiscal 2012, if the discount rate had been increased by 0.5%, net pension expense would have decreased by \$0.5 million, and if the discount rate had been decreased by 0.5%, net pension expense would have increased by \$0.6 million. In addition, if the discount rate had been increased by 0.5%, the projected benefit obligation would have decreased by \$5.3 million and the accumulated benefit obligation would have decreased by \$5.3 million. If the discount rate had been decreased by 0.5%, the projected benefit obligation would have been increased by \$5.8 million and the accumulated benefit obligation would have increased by \$5.8 million.

---

## **Table of Contents**

**Amortization of Gains and Losses** The Company utilizes a calculated value of assets, which is an averaging method that recognizes changes in the fair values of assets over a period of five years. At the end of Fiscal 2012, the Company had unrecognized actuarial losses of \$48.9 million. Accounting principles generally accepted in the United States require that the Company recognize a portion of these losses when they exceed a calculated threshold. These losses might be recognized as a component of pension expense in future years and would be amortized over the average future service of employees, which is currently approximately six years. Future changes in plan asset returns, assumed discount rates and various other factors related to the pension plan will impact future pension expense and liabilities, including increasing or decreasing unrecognized actuarial gains and losses.

The Company recognized expense for its defined benefit pension plans of \$2.8 million, \$2.3 million and \$0.2 million in Fiscal 2012, 2011 and 2010, respectively. The Company's board of directors approved freezing the Company's defined pension benefit plan effective January 1, 2005. The Company's pension expense is expected to increase in Fiscal 2013 by approximately \$1.9 million due to a larger actuarial loss to be amortized and the change in the long-term rate of return assumption to 7.75% from 8.25%.

### *Share-Based Compensation*

The Company has share-based compensation plans covering certain members of management and non-employee directors. The Company recognizes compensation expense for share-based payments based on the fair value of the awards as required by the Compensation - Stock Compensation Topic of the Codification. For Fiscal 2012, 2011 and 2010, share-based compensation expense was less than \$1,000, \$0.2 million and \$0.5 million, respectively. The Company did not issue any new share-based compensation awards in Fiscal 2012, 2011 or 2010. For Fiscal 2012, 2011 and 2010, restricted stock expense was \$7.7 million, \$7.8 million and \$6.5 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.

### **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 Fiscal 2012 Compared to Fiscal 2011**

The Company's net sales for Fiscal 2012 increased 28.1% to \$2.29 billion from \$1.79 billion in Fiscal 2011. The increase in net sales was a result of an increase in comparable store sales in the Lids Sports Group, Journeys Group and Johnston & Murphy Group, combined with \$274.2 million of sales from businesses acquired over the past twelve months, offset slightly by lower sales in Licensed Brands and Underground Station Group. Gross margin increased 28.0% to \$1.15 billion in Fiscal 2012 from \$901.8 million in Fiscal 2011 and was flat as a percentage of net sales at 50.4%. Selling and administrative expenses in Fiscal 2012 increased 24.8% from Fiscal 2011 but decreased as a percentage of net sales from 45.1% to 44.0%, primarily reflecting expense leverage in the Lids Sports Group, Journeys Group, Johnston & Murphy Group and Underground



**Table of Contents**

Station Group due to positive comparable store sales and increased wholesale sales in the Johnston & Murphy Group. 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 Fiscal 2012 were \$138.8 million, compared to \$85.0 million for Fiscal 2011. Pretax earnings for Fiscal 2012 included restructuring and other charges of \$2.7 million, including \$1.1 million for retail store asset impairments, \$0.9 million for other legal matters and \$0.7 million for expenses related to the computer network intrusion announced in December 2010. Pretax earnings for Fiscal 2011 included restructuring and other charges of \$8.6 million, including \$7.2 million for retail store asset impairments, \$1.3 million for expenses related to the computer network intrusion and \$0.1 million for other legal matters.

Net earnings for Fiscal 2012 were \$82.0 million (\$3.43 diluted earnings per share) compared to \$53.2 million (\$2.24 diluted earnings per share) for Fiscal 2011. Net earnings for Fiscal 2012 includes \$1.0 million (\$0.05 diluted loss per share) charge to earnings (net of tax), including \$1.1 million primarily for anticipated costs of environmental remedial alternatives related to former facilities operated by the Company, offset by a \$0.1 million gain for excess provisions to prior discontinued operations. Net earnings for Fiscal 2011 includes \$1.3 million (\$0.05 diluted loss per share) charge to earnings (net of tax), including \$1.8 million primarily for anticipated costs of environmental remedial alternatives related to former facilities operated by the Company, offset by a \$0.5 million gain for excess provisions to prior discontinued operations. The Company recorded an effective federal income tax rate of 40.2% for Fiscal 2012 compared to 35.8% for Fiscal 2011. This year's higher effective tax rate of 40.2% reflects transaction costs and deferred purchase price related to the Schuh acquisition, which are considered permanent differences. Last year's lower effective tax rate of 35.8% reflects the net reduction of the Company's liability for uncertain tax positions of \$1.3 million in Fiscal 2011. See Note 9 to the Consolidated Financial Statements for additional information.

*Journeys Group*

|                          | Fiscal Year Ended      |            | %<br>Change |
|--------------------------|------------------------|------------|-------------|
|                          | 2012                   | 2011       |             |
|                          | (dollars in thousands) |            |             |
| Net sales                | \$ 927,743             | \$ 804,149 | 15.4%       |
| Earnings from operations | \$ 82,785              | \$ 52,639  | 57.3%       |
| Operating margin         | 8.9%                   | 6.5%       |             |

Net sales from Journeys Group increased 15.4% to \$927.7 million for Fiscal 2012 from \$804.1 million for Fiscal 2011. The increase reflects primarily a 15% increase in comparable store sales. The comparable store sales increase reflected a 12% increase in footwear unit comparable sales and a 2% increase in the average price per pair of shoes. Total unit sales increased 13% during the same period. The store count for Journeys Group was 1,017 stores at the end of Fiscal 2012, including 152 Journeys Kidz stores, 53 Shi by Journeys stores and 13 Journeys stores in Canada, compared to 1,017 stores at the end of Fiscal 2011, including 149 Journeys Kidz stores, 55 Shi by Journeys stores and three Journeys stores in Canada.

**Table of Contents**

Journeys Group earnings from operations for Fiscal 2012 increased 57.3% to \$82.8 million, compared to \$52.6 million for Fiscal 2011. The increase in earnings from operations was primarily due to increased net sales and decreased expenses as a percentage of net sales, reflecting leveraging of occupancy costs, selling salaries and depreciation.

*Underground Station Group*

|                      | Fiscal Year Ended      |            | %<br>Change |
|----------------------|------------------------|------------|-------------|
|                      | 2012                   | 2011       |             |
|                      | (dollars in thousands) |            |             |
| Net sales            | \$ 92,373              | \$ 94,351  | (2.1)%      |
| Loss from operations | \$ (333)               | \$ (2,997) | 88.9%       |
| Operating margin     | (0.4)%                 | (3.2)%     |             |

Net sales from the Underground Station Group decreased 2.1% to \$92.4 million for Fiscal 2012 from \$94.4 million for Fiscal 2011. The decrease reflects a 12% decrease in average Underground Station Group 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 thirteen) partially offset by a 6% increase in comparable store sales. Comparable footwear unit sales increased 4% while the average price per pair of shoes decreased 1%, reflecting changes in product mix. Total unit sales for the Group decreased 4% for Fiscal 2012. Underground Station Group operated 137 stores at the end of Fiscal 2012. The Company had operated 151 Underground Station Group stores at the end of Fiscal 2011. The Company has announced the integration of Underground Station operations into the Journeys Group segment during Fiscal 2013. The former Underground Station stores will be a subset of Journeys Group under the brand Underground by Journeys. Product in the new Underground by Journeys stores will resemble a traditional Journeys store with appropriate merchandise changes to reflect mall and store demographics, targeting a somewhat older customer base than Journeys stores. The Company plans to continue to close underperforming Underground by Journeys locations.

The Underground Station Group loss from operations for Fiscal 2012 improved to \$(0.3) million compared to \$(3.0) million for the same period last year. The improvement was primarily due to decreased expenses as a percentage of net sales, reflecting decreased occupancy costs, depreciation and compensation expenses resulting from strong comparable store sales and closing unprofitable stores.

**Table of Contents***Schuh Group*

|                          | Fiscal Year Ended      |      | %<br>Change |
|--------------------------|------------------------|------|-------------|
|                          | 2012                   | 2011 |             |
|                          | (dollars in thousands) |      |             |
| Net sales                | \$ 212,262             | \$   | NM          |
| Earnings from operations | \$ 11,711              | \$   | NM          |
| Operating margin         | 5.5%                   |      |             |

Net sales from the Schuh Group were \$212.3 million for the initial reporting period ended January 28, 2012, beginning on June 20, 2011. Schuh Group operated 64 stores and 14 concessions at the end of Fiscal 2012.

Schuh Group earnings from operations were \$11.7 million for Fiscal 2012. Earnings included \$7.2 million in compensation expense related to a deferred purchase price obligation in connection with the acquisition, as discussed above. Such expense reduced operating margin for the segment by approximately 340 basis points. See Note 2 to the Consolidated Financial Statements for additional information related to the Schuh acquisition.

*Lids Sports Group*

|                          | Fiscal Year Ended      |            | %<br>Change |
|--------------------------|------------------------|------------|-------------|
|                          | 2012                   | 2011       |             |
|                          | (dollars in thousands) |            |             |
| Net sales                | \$ 759,324             | \$ 603,345 | 25.9%       |
| Earnings from operations | \$ 82,349              | \$ 56,026  | 47.0%       |
| Operating margin         | 10.8%                  | 9.3%       |             |

Net sales from the Lids Sports Group increased 25.9% to \$759.3 million for Fiscal 2012 from \$603.3 million for Fiscal 2011. The increase primarily reflects a 12% increase in comparable store sales and \$59.8 million of sales from businesses acquired over the past twelve months. The comparable store sales increase reflected a 10% increase in comparable store units sold, primarily reflecting demand which management believes is driven by style trends and a 2% increase in average price per hat. Lids Sports Group operated 1,002 stores at the end of Fiscal 2012, including 82 stores in Canada and 120 Lids Locker Room stores and Clubhouse stores, compared to 985 stores at the end of Fiscal 2011, including 73 stores in Canada and 99 Lids Locker Room stores.

Lids Sports Group earnings from operations for Fiscal 2012 increased 47.0% to \$82.3 million compared to \$56.0 million for Fiscal 2011. The increase in operating income was primarily due to increased headwear sales and decreased expenses as a percentage of net sales, primarily reflecting leverage in store related expenses from positive comparable store sales as well as for a change in sales mix in the Lids Sports Group. Wholesale sales accounted for 15% of the Lids Sports Group's sales in Fiscal 2012 compared to 12% in Fiscal 2011. Wholesale sales normally involve lower expenses compared to retail stores.

**Table of Contents***Johnston & Murphy Group*

|                          | Fiscal Year Ended      |            | %<br>Change |
|--------------------------|------------------------|------------|-------------|
|                          | 2012                   | 2011       |             |
|                          | (dollars in thousands) |            |             |
| Net sales                | \$ 201,725             | \$ 185,011 | 9.0%        |
| Earnings from operations | \$ 13,682              | \$ 7,595   | 80.1%       |
| Operating margin         | 6.8%                   | 4.1%       |             |

Johnston & Murphy Group net sales increased 9.0% to \$201.7 million for Fiscal 2012 from \$185.0 million for Fiscal 2011. The increase reflected primarily a 10% increase in comparable store sales and a 5% increase in Johnston & Murphy wholesale sales, partially offset by a 2% decrease in average stores operated for Johnston & Murphy retail operations. Unit sales for the Johnston & Murphy wholesale business increased 4% in Fiscal 2012 and the average price per pair of shoes increased 1% for the same period. The comparable store sales increase in Fiscal 2012 reflects a 3% increase in footwear unit comparable sales and a 3% increase in average price per pair of shoes, primarily due to changes in product mix. The comparable store sales increase also reflects increased sales of non-footwear categories. Retail operations accounted for 74.3% of Johnston & Murphy Group sales in Fiscal 2012, up from 73.3% in Fiscal 2011. The store count for Johnston & Murphy retail operations at the end of Fiscal 2012 included 153 Johnston & Murphy shops and factory stores compared to 156 Johnston & Murphy shops and factory stores at the end of Fiscal 2011.

Johnston & Murphy earnings from operations for Fiscal 2012 increased 80.1% to \$13.7 million from \$7.6 million for Fiscal 2011, primarily due to increased net sales, increased gross margin as a percentage of net sales and decreased expenses as a percentage of net sales. Expenses reflected positive leverage in occupancy and depreciation from the increase in comparable store sales.

*Licensed Brands*

|                          | Fiscal Year Ended      |            | %<br>Change |
|--------------------------|------------------------|------------|-------------|
|                          | 2012                   | 2011       |             |
|                          | (dollars in thousands) |            |             |
| Net sales                | \$ 97,444              | \$ 101,644 | (4.1)%      |
| Earnings from operations | \$ 9,456               | \$ 12,359  | (23.5)%     |
| Operating margin         | 9.7%                   | 12.2%      |             |

Licensed Brands net sales decreased 4.1% to \$97.4 million for Fiscal 2012 from \$101.6 million for Fiscal 2011. The sales decrease reflects a decrease in sales of Dockers Footwear which management attributes in part to retailers increasing emphasis on their private label brands, offset by a \$4.9 million increase in sales from the Chaps line of footwear and Keuka Footwear business, which was acquired in the third quarter of Fiscal 2011. Unit sales for Dockers Footwear decreased 9% for Fiscal 2012 and the average price per pair of shoes decreased 1% for the same period.

Licensed Brands earnings from operations for Fiscal 2012 decreased 23.5%, from \$12.4 million for Fiscal 2011 to \$9.5 million, primarily due to decreased net sales, decreased gross margins as a percentage of net sales and to increased expenses as a percentage of net sales, reflecting increased selling and advertising expenses and freight costs.

**Table of Contents***Corporate, Interest Expenses and Other Charges*

Corporate and other expense for Fiscal 2012 was \$55.8 million compared to \$39.5 million for Fiscal 2011. Corporate expense in Fiscal 2012 included \$2.7 million in restructuring and other charges, primarily for retail store asset impairments, other legal matters, network intrusion expenses and \$7.4 million in acquisition related expenses. Corporate expense in Fiscal 2011 included \$8.6 million in restructuring and other charges, primarily for retail store asset impairments, network intrusion expenses and other legal matters. Excluding the charges listed above, corporate and other expense increased primarily due to higher bonus accruals reflecting improved financial performance of the Company.

Interest expense increased 356.4% from \$1.1 million in Fiscal 2011 to \$5.2 million in Fiscal 2012, due to average revolver borrowings of \$49.5 million in Fiscal 2012, primarily in connection with the Schuh acquisition, and acquired UK term loans totaling \$35.7 million as of January 28, 2012, compared to average revolver borrowings of \$7.0 million in Fiscal 2011.

**Results of Operations Fiscal 2011 Compared to Fiscal 2010**

The Company's net sales for Fiscal 2011 increased 13.7% to \$1.79 billion from \$1.57 billion in Fiscal 2010. The increase in net sales was a result of an increase in comparable store sales in the Lids Sports Group, Journeys Group and Johnston & Murphy Group and higher sales in Licensed Brands combined with \$52.8 million of sales from businesses acquired over the past twelve months. The higher sales were offset slightly by negative comparable store sales and lower sales, reflecting fewer stores in operation in the Underground Station Group. Gross margin increased 13.3% to \$901.8 million in Fiscal 2011 from \$795.9 million in Fiscal 2010 but decreased as a percentage of net sales from 50.6% to 50.4%. Selling and administrative expenses in Fiscal 2011 increased 11.8% from Fiscal 2010 but decreased as a percentage of net sales from 45.9% to 45.1%, primarily reflecting expense leverage in the Lids Sports Group, Journeys Group and Johnston & Murphy Group due to positive comparable store sales and increased wholesale sales in the Johnston & Murphy Group. 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 Fiscal 2011 were \$85.0 million, compared to \$50.5 million for Fiscal 2010. Pretax earnings for Fiscal 2011 included restructuring and other charges of \$8.6 million, including \$7.2 million for retail store asset impairments, \$1.3 million for expenses related to the computer network intrusion announced in December 2010, and \$0.1 million for other legal matters. Pretax earnings for Fiscal 2010 included restructuring and other charges of \$13.5 million, including \$13.3 million for retail store asset impairments and \$0.4 million for lease terminations, offset by \$0.3 million for other legal matters. Also included in pretax earnings was \$0.1 million in excess markdowns related to the lease terminations, reflected in cost of sales on the Consolidated Statements of Operations. Pretax earnings for Fiscal 2010 also included a \$5.5 million loss on early retirement of debt.

Net earnings for Fiscal 2011 were \$53.2 million (\$2.24 diluted earnings per share) compared to \$28.8 million (\$1.30 diluted earnings per share) for Fiscal 2010. Net earnings for Fiscal 2011 includes \$1.3 million (\$0.05 diluted loss per share) charge to earnings (net of tax), including \$1.8 million primarily for anticipated costs of environmental remedial alternatives related to former facilities operated by the Company, offset by a \$0.5 million gain for excess provisions to prior

**Table of Contents**

discontinued operations. Net earnings for Fiscal 2010 includes \$0.3 million (\$0.01 diluted loss per share) charge to earnings (net of tax), including \$0.5 million primarily for anticipated costs of environmental remedial alternatives related to former facilities operated by the Company offset by a \$0.2 million gain for excess provisions to prior discontinued operations. The Company recorded an effective federal income tax rate of 35.8% for Fiscal 2011 compared to 42.4% for Fiscal 2010. The lower effective tax rate for Fiscal 2011 of 35.8% reflects the net reduction of the Company's liability for uncertain tax positions of \$1.3 million in Fiscal 2011, as well as the non-deductibility in Fiscal 2010 of certain items incurred in connection with the inducement of conversion of the Debentures for common stock. The higher effective tax rate in Fiscal 2010 of 42.4% reflects the non-deductibility of certain items incurred in connection with the inducement of the conversion of the Debentures for common stock in Fiscal 2010. See Note 9 to the Consolidated Financial Statements for additional information.

*Journeys Group*

|                          | Fiscal Year Ended      |            | %<br>Change |
|--------------------------|------------------------|------------|-------------|
|                          | 2011                   | 2010       |             |
|                          | (dollars in thousands) |            |             |
| Net sales                | \$ 804,149             | \$ 749,202 | 7.3%        |
| Earnings from operations | \$ 52,639              | \$ 42,090  | 25.1%       |
| Operating margin         | 6.5%                   | 5.6%       |             |

Net sales from Journeys Group increased 7.3% to \$804.1 million for Fiscal 2011 from \$749.2 million for Fiscal 2010. The increase reflects primarily a 7% increase in comparable store sales, resulting from a 7% increase in footwear unit comparable sales with no change in the average price per pair of shoes. Total unit sales increased 8% during the same period. The store count for Journeys Group was 1,017 stores at the end of Fiscal 2011, including 149 Journeys Kidz stores, 55 Shi by Journeys stores and three Journeys stores in Canada, compared to 1,025 stores at the end of Fiscal 2010, including 150 Journeys Kidz stores and 56 Shi by Journeys stores.

Journeys Group earnings from operations for Fiscal 2011 increased 25.1% to \$52.6 million, compared to \$42.1 million for Fiscal 2010. The increase in earnings from operations was primarily due to increased net sales and decreased expenses as a percentage of net sales, reflecting store-related occupancy cost leverage from positive comparable store sales and lower depreciation expense.

*Underground Station Group*

|                      | Fiscal Year Ended      |            | %<br>Change |
|----------------------|------------------------|------------|-------------|
|                      | 2011                   | 2010       |             |
|                      | (dollars in thousands) |            |             |
| Net sales            | \$ 94,351              | \$ 99,458  | (5.1)%      |
| Loss from operations | \$ (2,997)             | \$ (4,809) | 37.7%       |
| Operating margin     | (3.2)%                 | (4.8)%     |             |

Net sales from the Underground Station Group decreased 5.1% to \$94.4 million for Fiscal 2011 from \$99.5 million for Fiscal 2010. The decrease reflects a 1% decrease in comparable store sales and a 9% decrease in average Underground Station Group stores operated. Comparable footwear unit sales increased 4% while the average price per pair of shoes decreased 4%, reflecting changes in product mix. Total unit sales for the

**Table of Contents**

Group were flat for Fiscal 2011. Underground Station Group operated 151 stores at the end of Fiscal 2011. The Company had operated 170 Underground Station Group stores at the end of Fiscal 2010. The Company plans to close certain underperforming Underground Station stores as the opportunity presents itself, and attempt to secure rent relief on other locations while it assesses the future prospects for the chain.

The Underground Station Group loss from operations for Fiscal 2011 improved to \$(3.0) million compared to \$(4.8) million for the same period last year. The improvement was due to increased gross margin as a percentage of net sales, reflecting decreased markdowns, decreased expenses as a percentage of net sales due to decreased occupancy costs and depreciation and to earnings improvement resulting from closing underperforming stores.

*Lids Sports Group*

|                          | Fiscal Year Ended      |            | %<br>Change |
|--------------------------|------------------------|------------|-------------|
|                          | 2011                   | 2010       |             |
|                          | (dollars in thousands) |            |             |
| Net sales                | \$ 603,345             | \$ 465,776 | 29.5%       |
| Earnings from operations | \$ 56,026              | \$ 42,708  | 31.2%       |
| Operating margin         | 9.3%                   | 9.2%       |             |

Net sales from the Lids Sports Group increased 29.5% to \$603.3 million for Fiscal 2011 from \$465.8 million for Fiscal 2010. The increase reflects primarily a 9% increase in comparable store sales, a \$46.7 million increase in sales from the Lids Team Sports business, primarily due to acquisitions, and a \$36.0 million increase in sales from Lids Locker Room, including the Sports Avenue stores acquired during the third quarter of the year. The comparable store sales increase reflected a 7% increase in comparable store headwear units sold, primarily reflecting demand which management believes is driven by style trends and a 2% increase in average price per hat. Lids Sports Group operated 985 stores at the end of Fiscal 2011, including 73 stores in Canada and 99 Lids Locker Room stores, compared to 921 stores at the end of Fiscal 2010, including 60 stores in Canada and 37 Lids Locker Room stores.

Lids Sports Group earnings from operations for Fiscal 2011 increased 31.2% to \$56.0 million compared to \$42.7 million for Fiscal 2010. The increase in operating income was primarily due to increased net sales and decreased expenses as a percentage of net sales, primarily reflecting leverage from positive comparable store sales.

*Johnston & Murphy Group*

|                          | Fiscal Year Ended      |            | %<br>Change |
|--------------------------|------------------------|------------|-------------|
|                          | 2011                   | 2010       |             |
|                          | (dollars in thousands) |            |             |
| Net sales                | \$ 185,011             | \$ 166,079 | 11.4%       |
| Earnings from operations | \$ 7,595               | \$ 4,725   | 60.7%       |
| Operating margin         | 4.1%                   | 2.8%       |             |

Johnston & Murphy Group net sales increased 11.4% to \$185.0 million for Fiscal 2011 from \$166.1 million for Fiscal 2010, reflecting primarily an 8% increase in comparable store sales and a 21% increase in Johnston & Murphy wholesale sales, partially offset by a 1% decrease in average stores operated for Johnston & Murphy retail operations. The comparable store sales increase in Fiscal 2011 reflects an 11% increase in footwear unit comparable sales offset by a 5% decrease in

**Table of Contents**

average price per pair of shoes, primarily due to changes in product mix. Unit sales for the Johnston & Murphy wholesale business increased 14% in Fiscal 2011 and the average price per pair of shoes increased 6% for the same period. Retail operations accounted for 73.3% of Johnston & Murphy Group sales in Fiscal 2011, down from 75.4% in Fiscal 2010. The store count for Johnston & Murphy retail operations at the end of Fiscal 2011 included 156 Johnston & Murphy shops and factory stores compared to 160 Johnston & Murphy shops and factory stores at the end of Fiscal 2010.

Johnston & Murphy earnings from operations for Fiscal 2011 increased 60.7% to \$7.6 million from \$4.7 million for Fiscal 2010, primarily due to increased net sales and decreased expenses as a percentage of net sales, reflecting positive leverage from the increase in comparable store sales and increased wholesale sales.

*Licensed Brands*

|                          | Fiscal Year Ended      |           | %<br>Change |
|--------------------------|------------------------|-----------|-------------|
|                          | 2011                   | 2010      |             |
|                          | (dollars in thousands) |           |             |
| Net sales                | \$ 101,644             | \$ 93,194 | 9.1%        |
| Earnings from operations | \$ 12,359              | \$ 11,974 | 3.2%        |
| Operating margin         | 12.2%                  | 12.8%     |             |

Licensed Brands net sales increased 9.1% to \$101.6 million for Fiscal 2011 from \$93.2 million for Fiscal 2010. The sales increase reflects \$9.1 million of increased sales from the Chaps line of footwear that the Company is sourcing with limited distribution and a small acquisition made in the third quarter of Fiscal 2011, while sales of Dockers Footwear were flat. Unit sales for Dockers Footwear increased 1% for Fiscal 2011 while the average price per pair of shoes decreased 1% for the same period.

Licensed Brands earnings from operations for Fiscal 2011 increased 3.2%, from \$12.0 million for Fiscal 2010 to \$12.4 million, primarily due to increased net sales.

*Corporate, Interest Expenses and Other Charges*

Corporate and other expense for Fiscal 2011 was \$39.5 million compared to \$41.8 million for Fiscal 2010. Corporate expense in Fiscal 2011 included \$8.6 million in restructuring and other charges, primarily for retail store asset impairments, network intrusion expenses and other legal matters. Corporate expense in Fiscal 2010 included \$13.5 million in restructuring and other charges, primarily for retail store asset impairments and lease terminations offset by other legal matters. Corporate expense for Fiscal 2010 also included \$5.5 million for the loss on early retirement of debt. Corporate and other costs of sales for Fiscal 2010 included \$0.1 million in excess markdowns related to lease terminations. Corporate expenses, excluding restructuring and other charges and the loss on early retirement of debt in Fiscal 2010, increased \$8.1 million primarily due to higher bonus accruals reflecting improved financial performance of the Company.

Interest expense decreased 74.5% from \$4.4 million in Fiscal 2010 to \$1.1 million in Fiscal 2011, due to the conversion of all the Company's 4 1/8% Debentures during Fiscal 2010.



**Table of Contents****Liquidity and Capital Resources**

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

|  | <b>Jan. 28,<br/>2012</b> | Jan. 29,<br>2011 | Jan. 30,<br>2010 |
|--|--------------------------|------------------|------------------|
|  | (dollars in millions)    |                  |                  |
| Cash and cash equivalents                    | <b>\$ 53.8</b>           | \$ 55.9          | \$ 82.1          |
| Working capital                              | <b>\$ 290.9</b>          | \$ 278.7         | \$ 280.4         |
| Long-term debt (includes current maturities) | <b>\$ 40.7</b>           | \$ -0-           | \$ -0-           |

*Working Capital*

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

Cash provided by operating activities was \$145.0 million in Fiscal 2012 compared to \$102.6 million in Fiscal 2011. The \$42.4 million increase in cash flow from operating activities from last year reflects improved earnings and a change in other assets and liabilities and accounts receivable of \$27.1 million and \$15.1 million, respectively, offset by a decrease in cash flow from changes in other accrued liabilities and accounts payable of \$32.6 million and \$14.8 million, respectively. The \$27.1 million increase in cash flow from other assets and liabilities reflects an increase in the bonus bank liability, resulting from increased bonuses in Fiscal 2012, and deferred compensation due to the deferred purchase price and bonus earn-out accruals related to Schuh, partially offset by an increase in long-term receivables related to the network intrusion. The \$15.1 million increase in cash flow from accounts receivable reflects primarily decreased wholesale sales in Licensed Brands for Fiscal 2012 and the increase in wholesale sales, including the additional sales in Lids Team Sports, in Fiscal 2011 when compared to Fiscal 2010, which together, contribute to the increase in cash flow for Fiscal 2012. The \$32.6 million decrease in cash flow from other accrued liabilities was due to a reduction in the growth of current bonus accruals and increased payments related to environmental liabilities. The \$14.8 million decrease in cash flow from accounts payable reflected changes in buying patterns and payment terms negotiated with individual vendors.

The \$42.3 million increase in inventories at January 28, 2012 from January 29, 2011 levels reflects primarily an increase in Lids retail inventory to support growth and increases in Lids Team Sports inventory to support growth and to improve customer fulfillment.

Accounts receivable at January 28, 2012 decreased \$3.0 million compared to January 29, 2011, due primarily to decreased wholesale sales in Licensed Brands.

Cash provided by operating activities was \$102.6 million in Fiscal 2011 compared to \$142.1 million in Fiscal 2010. The \$39.5 million decrease from operating activities from Fiscal 2010 reflects a decrease in cash flow from changes in inventory and accounts receivable of \$68.4 million and \$9.8 million, respectively, offset by increases from improved earnings and changes in other accrued liabilities of \$39.9 million. The \$68.4 million decrease in cash flow from inventory reflected the decision in Fiscal 2011 to accelerate receipts in anticipation of potential supply chain disruptions associated with the Chinese New Year, increased purchases to support sales and efforts in Fiscal 2010 to reduce inventory in order to align inventory growth with sales growth, especially in the Johnston & Murphy Group. The \$9.8 million decrease in cash flow from accounts receivable reflects increased wholesale sales including the additional sales in Lids Team Sports related to recent acquisitions. The \$39.9 million increase in cash flow from other accrued liabilities reflected increased bonus accruals and increased income tax accruals in Fiscal 2011 compared to Fiscal 2010, resulting from improved earnings.

---

## **Table of Contents**

The \$44.3 million increase in inventories at January 29, 2011 from January 30, 2010 levels reflects the decision in Fiscal 2011 to accelerate receipts in anticipation of potential supply chain disruptions associated with the Chinese New Year and increased purchases to support sales.

Accounts receivable at January 29, 2011 increased \$12.1 million compared to January 30, 2010, due primarily to increased wholesale sales reflecting growth in Lids Team Sports and in the Johnston & Murphy wholesale business.

### *Sources of Liquidity*

The Company has three principal sources of liquidity: cash from operations, cash and cash equivalents on hand and the Credit Facility and UK Credit Facility discussed below. The Company believes that cash and cash equivalents on hand, cash from operations and availability under its Credit Facility and UK Credit Facility 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, and 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 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 eligible wholesale receivables of the Lids Team Sports business) plus 90% of eligible credit card and debit card receivables less applicable reserves. For additional information on the Company's Credit Facility, see Note 6 to the Consolidated Financial Statements included in Item 8.

In connection with the Schuh acquisition, Schuh entered into an amended and restated Senior Term Facilities Agreement and Working Capital Facility Letter (collectively, the UK Credit Facility) 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 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. The working capital facility bears interest at the Base Rate (as defined) plus 2.25% per annum.

The UK Credit Facility contains 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 January 28, 2012.

---

**Table of Contents**

The UK Credit Facility is secured by a pledge of all the assets of Schuh and its subsidiaries.

Revolving credit borrowings averaged \$49.5 million during Fiscal 2012 and \$7.0 million during Fiscal 2011, as cash on hand and cash generated from operations primarily funded seasonal working capital requirements and capital expenditures for Fiscal 2012 with revolver borrowings used during the second quarter of Fiscal 2012 for the purchase of Schuh Group Ltd.

There were \$10.1 million of letters of credit outstanding, \$5.0 million of revolver borrowings outstanding under the Credit Facility and \$35.7 million in U.K. term loans outstanding at January 28, 2012. The Company is not required to comply with any financial covenants under the Credit Facility unless Excess Availability (as defined in the First Amendment to the Second Amended and Restated Credit Agreement) is less than the greater of \$27.5 million or 12.5% of the Loan Cap. If and during such time as Excess Availability is less than the greater of \$27.5 million or 12.5% of the Loan Cap, the Credit Facility requires the Company to meet a minimum fixed charge coverage ratio 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 \$272.4 million at January 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 January 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.

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 \$0.2 million.

**Table of Contents***Contractual Obligations*

The following tables set forth aggregate contractual obligations and commitments as of January 28, 2012.

| (in thousands)                                     | Payments Due by Period |                     |                   |                   |                         |
|--|------------------------|---------------------|-------------------|-------------------|-------------------------|
|  | Total                  | Less than 1<br>year | 1 - 3<br>years    | 3 - 5<br>years    | More<br>than 5<br>years |
| Contractual Obligations                            |                        |                     |                   |                   |                         |
| Capital Lease Obligations                          | \$ 15                  | \$ 1                | \$ 3              | \$ 3              | \$ 8                    |
| Long-Term Debt Obligations                         | 40,704                 | 8,773               | 10,986            | 20,945            | -0-                     |
| Operating Lease Obligations                        | 1,133,972              | 202,882             | 361,785           | 274,424           | 294,881                 |
| Purchase Obligations <sup>(1)</sup>                | 494,690                | 494,690             | -0-               | -0-               | -0-                     |
| Long-Term Obligations Schuh <sup>(2)</sup>         | 36,658                 | 1,373               | 28,044            | 7,241             | -0-                     |
| Other Long-Term Liabilities                        | 1,356                  | 176                 | 351               | 351               | 478                     |
| <b>Total Contractual Obligations<sup>(3)</sup></b> | <b>\$ 1,707,395</b>    | <b>\$ 707,895</b>   | <b>\$ 401,169</b> | <b>\$ 302,964</b> | <b>\$ 295,367</b>       |

| (in thousands)               | Amount of Commitment Expiration Per Period |                     |                |                |                         |
|------------------------------|--|---------------------|----------------|----------------|-------------------------|
|                              | Total Amounts<br>Committed                 | Less than 1<br>year | 1 - 3<br>years | 3 - 5<br>years | More<br>than 5<br>years |
| Commercial Commitments       |  |                     |                |                |                         |
| Letters of Credit            | \$ 10,138                                  | \$ 10,138           | \$ -0-         | \$ -0-         | \$ -0-                  |
| Total Commercial Commitments | \$ 10,138                                  | \$ 10,138           | \$ -0-         | \$ -0-         | \$ -0-                  |

- (1) Open purchase orders for inventory.
- (2) Includes deferred purchase price payments, earn-out bonus payments and retention note payments related to the Schuh acquisition and interest on the UK term loans. For additional information, see Notes 2 and 6 to the Consolidated Financial Statements included in Item 8.
- (3) Excludes unrecognized tax benefits of \$21.9 million due to their uncertain nature in timing of payments, if any.

*Capital Expenditures*

Capital expenditures were \$49.5 million, \$29.3 million and \$33.8 million for Fiscal 2012, 2011 and 2010, respectively. The \$20.2 million increase in Fiscal 2012 capital expenditures as compared to Fiscal 2011 reflected an increase in retail store capital expenditures due to the construction of 70 new stores opened in Fiscal 2012, compared to 53 stores in Fiscal 2011 and increased major and minor renovations due to lease renewals. The \$4.5 million decrease in Fiscal 2011 capital expenditures as compared to Fiscal 2010 reflected a decrease in retail store capital expenditures due to the construction of 53 new stores opened in Fiscal 2011, compared to 61 stores in Fiscal 2010.

Total capital expenditures in Fiscal 2013 are expected to be approximately \$85.6 million. These include retail capital expenditures of approximately \$77.5 million to open approximately 27 Journeys stores, including 12 in Canada, seven Journeys Kidz stores, three Shi by Journeys stores, eight Schuh stores, 13 Johnston & Murphy shops and factory stores and 42 Lids Sports Group stores including 25 Lids stores, with 10 stores in Canada, and 17 Lids Locker Room and Clubhouse stores, with two Lids Locker Room stores in Canada, and to complete approximately 161 major store renovations. The planned amount of capital expenditures in Fiscal 2013 for wholesale operations and other purposes is approximately \$8.1 million, including approximately \$4.3 million for new systems to improve customer service and support the Company's growth.

---

## **Table of Contents**

### *Future Capital Needs*

The Company expects that cash on hand and 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 \$8.2 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 85,000 shares at a cost of \$2.0 million during Fiscal 2010. In the first quarter of Fiscal 2011, the board increased the total repurchase authorization to \$35.0 million. The board restored the total repurchase authorization in the third quarter of Fiscal 2011 to \$35.0 million. The Company repurchased 863,767 shares at a cost of \$24.8 million during Fiscal 2011. All of the \$24.8 million in repurchases for Fiscal 2011, except \$0.6 million, were repurchased under the original \$35.0 million authorization made during the first quarter of Fiscal 2011. The Company did not repurchase any shares during Fiscal 2012.

### **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 13 to the Company's Consolidated Financial Statements. The Company has made pretax accruals for certain of these contingencies, including approximately \$1.8 million reflected in Fiscal 2012, \$2.9 million reflected in Fiscal 2011 and \$0.8 million reflected in Fiscal 2010. The Company monitors these matters on an ongoing basis and, on a quarterly basis, management reviews the Company's reserves and accruals in relation to each of them, adjusting provisions as management deems necessary in view of changes in available information. Changes in estimates of liability are reported in the periods when they occur. Consequently, management believes that its reserve in relation to each proceeding is a reasonable estimate of the probable loss connected to the proceeding, or in cases in which no reasonable estimate is possible, the minimum amount in the range of estimated losses, based upon its analysis of the facts and circumstances as of the close of the most recent fiscal quarter. However, because of uncertainties and risks inherent in litigation generally and in environmental proceedings in particular, there can be no assurance that future developments will not require additional reserves to be set aside, that some or all reserves may not be adequate or that the amounts of any such additional reserves or any such inadequacy will not have a material adverse effect upon the Company's financial condition or results of operations.

### **Financial Market Risk**

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

**Outstanding Debt of the Company** The Company has \$5.0 million of outstanding revolver borrowings under its Credit Facility at a weighted average interest rate of 4.50% as of January 28, 2012. A 100 basis point adverse change in interest rates would increase interest expense by less than \$0.1 million on the \$5.0 million revolving credit debt. The Company has \$35.7 million of outstanding U.K. term loans at a weighted average interest rate of 4.11% as of January 28, 2012. A 100 basis point adverse change in interest rates would increase interest expense by \$0.4 million on the \$35.7 million term loans.

## **Table of Contents**

**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 January 28, 2012. As a result, the Company considers the interest rate market risk implicit in these investments at January 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 January 28, 2012, the Company did not have any forward foreign exchange contracts for Euro outstanding.

**Accounts Receivable** The Company's accounts receivable balance at January 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 5% and no other customer accounted for more than 4% of the Company's total trade receivables balance as of January 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 January 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**

In June 2011, the Financial Accounting Standards Board (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. This update becomes effective in periods beginning after December 15, 2011 and is required to be adopted retrospectively. Early adoption is permitted. The Company is currently evaluating which of the two presentation alternatives it will adopt, but it is not expected to have a significant impact on the Company's results of operations or financial position.

**Table of Contents**

In September 2011, the FASB issued Accounting Standards Update No. 2011-08, an update to FASB Codification Intangibles – Goodwill and Other Topic, which amends the existing accounting standards related to the method of assessing goodwill for potential impairment. Specifically, this update limits the requirement for a company to perform a quantitative goodwill impairment test to situations in which management believes it is more likely than not that the fair value of a reporting unit is less than its carrying amount. This update becomes effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. The Company will adopt this update in Fiscal 2013 which begins January 29, 2012. The Company does not expect the adoption of this update to have a significant impact on the Company's results of operations or financial position.

In December 2011, the FASB issued Accounting Standards Update No. 2011-12, an update to the FASB Codification Comprehensive Income Topic, which defers the specific requirement to present items that are reclassified from accumulated other comprehensive income to net earnings separately with their respective components of net earnings and other comprehensive income. The update does not defer the requirement to report comprehensive income either in a single continuous statement or in two separate but consecutive financial statements. This update becomes effective in periods beginning after December 15, 2011. The Company does not expect the adoption of this update to have a significant impact on the Company's results of operations or financial position.

**Inflation**

The Company does not believe inflation has had a material impact on sales or operating results during periods covered in this discussion.

**ITEM 7A. 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 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

**Table of Contents**

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

INDEX TO FINANCIAL STATEMENTS

|   | Page |
|---|------|
| <u>Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting</u> | 52   |
| <u>Report of Independent Registered Public Accounting Firm on Financial Statements</u>                      | 53   |
| <u>Consolidated Balance Sheets, January 28, 2012 and January 29, 2011</u>                                   | 54   |
| <u>Consolidated Statements of Operations, each of the three fiscal years ended 2012, 2011 and 2010</u>      | 56   |
| <u>Consolidated Statements of Cash Flows, each of the three fiscal years ended 2012, 2011 and 2010</u>      | 57   |
| <u>Consolidated Statements of Equity, each of the three fiscal years ended 2012, 2011 and 2010</u>          | 58   |
| <u>Notes to Consolidated Financial Statements</u>   | 59   |



---

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

**On Internal Control over Financial Reporting**

The Board of Directors and Shareholders

Genesco Inc.

We have audited Genesco Inc. and Subsidiaries internal control over financial reporting as of January 28, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Genesco Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Schuh Group Limited, which is included in the January 28, 2012 consolidated financial statements of Genesco Inc. and constituted \$251.3 million, or 20.3%, and \$123.1 million, or 17.2%, of total assets and net assets, respectively, as of January 28, 2012 and \$212.3 million, or 9.3%, and \$6.2 million, or 7.5%, of net sales and net earnings, respectively, for the year then ended. Our audit of internal control over financial reporting of Genesco Inc. also did not include an evaluation of the internal control over financial reporting of Schuh Group Limited.

In our opinion, Genesco Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of January 28, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Genesco Inc. and Subsidiaries as of January 28, 2012 and January 29, 2011, and the related consolidated statements of earnings, cash flows, and equity for each of the three fiscal years in the period ended January 28, 2012 and our report dated March 28, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Nashville, Tennessee

March 28, 2012



**Table of Contents**

**Report of Independent Registered Public Accounting Firm on Financial Statements**

The Board of Directors and Shareholders

Genesco Inc.

We have audited the accompanying consolidated balance sheets of Genesco Inc. and Subsidiaries (the Company) as of January 28, 2012 and January 29, 2011, and the related consolidated statements of earnings, cash flows and equity for each of the three fiscal years in the period ended January 28, 2012. Our audits also included the financial statement schedule listed in Item 15. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Genesco Inc. and Subsidiaries at January 28, 2012 and January 29, 2011, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended January 28, 2012, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of January 28, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 28, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Nashville, Tennessee

March 28, 2012

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

Consolidated Balance Sheets

In Thousands, except share amounts

|   | <b>As of Fiscal Year End</b> |                   |
|---|------------------------------|-------------------|
|   | <b>2012</b>                  | <b>2011</b>       |
| <b>Assets</b>   |                              |                   |
| <b>Current Assets</b>   |                              |                   |
| Cash and cash equivalents   | \$ 53,790                    | \$ 55,934         |
| Accounts receivable, net of allowances of \$6,900 at January 28, 2012 and \$3,301 at January 29, 2011               | 43,713                       | 44,512            |
| Inventories   | 435,113                      | 359,736           |
| Deferred income taxes   | 22,541                       | 19,130            |
| Prepays and other current assets  | 40,155                       | 33,743            |
| <b>Total current assets</b>   | <b>595,312</b>               | <b>513,055</b>    |
| <b>Property and equipment:</b>  |                              |                   |
| Land  | 6,118                        | 4,863             |
| Buildings and building equipment  | 20,260                       | 17,992            |
| Computer hardware, software and equipment   | 116,920                      | 92,929            |
| Furniture and fixtures  | 127,949                      | 105,056           |
| Construction in progress  | 7,158                        | 9,109             |
| Improvements to leased property   | 299,775                      | 279,295           |
| <b>Property and equipment, at cost</b>  | <b>578,180</b>               | <b>509,244</b>    |
| <b>Accumulated depreciation</b>   | <b>(350,491)</b>             | <b>(310,553)</b>  |
| <b>Property and equipment, net</b>  | <b>227,689</b>               | <b>198,691</b>    |
| Deferred income taxes   | 28,152                       | 19,036            |
| Goodwill  | 259,759                      | 153,301           |
| Trademarks, net of accumulated amortization of \$2,246 at January 28, 2012 and \$1,151 at January 29, 2011          | 78,276                       | 52,486            |
| Other intangibles, net of accumulated amortization of \$13,645 at January 28, 2012 and \$10,565 at January 29, 2011 | 14,808                       | 12,578            |
| Other noncurrent assets   | 33,269                       | 11,935            |
| <b>Total Assets</b>   | <b>\$ 1,237,265</b>          | <b>\$ 961,082</b> |

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

Consolidated Balance Sheets

In Thousands, except share amounts

|   | As of Fiscal Year End |            |
|---|-----------------------|------------|
|   | 2012                  | 2011       |
| <b>Liabilities and Equity</b>                 |                       |            |
| <b>Current Liabilities</b>                    |                       |            |
| Accounts payable                              | \$ 138,938            | \$ 117,001 |
| Accrued employee compensation                 | 53,029                | 38,188     |
| Accrued other taxes                           | 26,293                | 17,289     |
| Accrued income taxes                          | 16,390                | 13,259     |
| Current portion long-term debt                | 8,773                 | -0-        |
| Other accrued liabilities                     | 52,789                | 38,177     |
| Provision for discontinued operations         | 8,250                 | 10,449     |
| <b>Total current liabilities</b>              | <b>304,462</b>        | 234,363    |
| Long-term debt                                | 31,931                | -0-        |
| Pension liability                             | 22,201                | 11,906     |
| Deferred rent and other long-term liabilities | 156,794               | 83,406     |
| Provision for discontinued operations         | 4,267                 | 4,586      |
| <b>Total liabilities</b>                      | <b>519,655</b>        | 334,261    |
| Commitments and contingent liabilities        |                       |            |
| <b>Equity</b>                                 |                       |            |
| Non-redeemable preferred stock                | 4,957                 | 5,183      |
| Common equity:                                |                       |            |
| Common stock, \$1 par value:                  |                       |            |
| Authorized: 80,000,000 shares                 |                       |            |
| Issued/Outstanding: January 28, 2012          | 24,757,826/24,269,362 |            |
| January 29, 2011                              | 24,162,634/23,674,170 | 24,758     |
| Additional paid-in capital                    | 149,479               | 131,910    |
| Retained earnings                             | 586,990               | 505,224    |
| Accumulated other comprehensive loss          | (32,966)              | (24,305)   |
| Treasury shares, at cost                      | (17,857)              | (17,857)   |
| <b>Total Genesco equity</b>                   | <b>715,361</b>        | 624,318    |
| Noncontrolling interest non-redeemable        | 2,249                 | 2,503      |
| <b>Total equity</b>                           | <b>717,610</b>        | 626,821    |
| <b>Total Liabilities and Equity</b>           | <b>\$ 1,237,265</b>   | \$ 961,082 |

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



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

## Consolidated Statements of Operations

In Thousands, except per share amounts

|  | 2012                | Fiscal Year<br>2011 | 2010         |
|--|---------------------|---------------------|--------------|
| Net sales  | <b>\$ 2,291,987</b> | \$ 1,789,839        | \$ 1,574,352 |
| Cost of sales  | <b>1,137,938</b>    | 887,992             | 778,482      |
| Selling and administrative expenses                            | <b>1,007,502</b>    | 807,197             | 722,087      |
| Restructuring and other, net                                   | <b>2,677</b>        | 8,567               | 13,361       |
| <b>Earnings from operations</b>                                | <b>143,870</b>      | 86,083              | 60,422       |
| Loss on early retirement of debt                               | <b>-0-</b>          | -0-                 | 5,518        |
| Interest expense, net:   |                     |                     |              |
| Interest expense   | <b>5,157</b>        | 1,130               | 4,430        |
| Interest income  | <b>(65)</b>         | (8)                 | (14)         |
| Total interest expense, net                                    | <b>5,092</b>        | 1,122               | 4,416        |
| <b>Earnings from continuing operations before income taxes</b> | <b>138,778</b>      | 84,961              | 50,488       |
| Income tax expense   | <b>55,794</b>       | 30,414              | 21,402       |
| <b>Earnings from continuing operations</b>                     | <b>82,984</b>       | 54,547              | 29,086       |
| Provision for discontinued operations, net                     | <b>(1,025)</b>      | (1,336)             | (273)        |
| <b>Net Earnings</b>  | <b>\$ 81,959</b>    | \$ 53,211           | \$ 28,813    |
| Basic earnings per common share:                               |                     |                     |              |
| Continuing operations  | <b>\$ 3.56</b>      | \$ 2.34             | \$ 1.35      |
| Discontinued operations  | <b>\$ (.04)</b>     | \$ (.06)            | \$ (.02)     |
| Net earnings   | <b>\$ 3.52</b>      | \$ 2.28             | \$ 1.33      |
| Diluted earnings per common share:                             |                     |                     |              |
| Continuing operations  | <b>\$ 3.48</b>      | \$ 2.29             | \$ 1.31      |
| Discontinued operations  | <b>\$ (.05)</b>     | \$ (.05)            | \$ (.01)     |
| Net earnings   | <b>\$ 3.43</b>      | \$ 2.24             | \$ 1.30      |

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

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

## Consolidated Statements of Cash Flows

In Thousands

|  | 2012      | Fiscal Year<br>2011 | 2010      |
|--|-----------|---------------------|-----------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |           |                     |           |
| Net earnings   | \$ 81,959 | \$ 53,211           | \$ 28,813 |
| Tax benefit of stock options exercised   | (4,744)   | (1,448)             | -0-       |
| Adjustments to reconcile net earnings to net cash provided by operating activities:                  |           |                     |           |
| Depreciation and amortization  | 53,737    | 47,738              | 47,462    |
| Amortization of deferred note expense and debt discount  | 708       | 370                 | 2,022     |
| Loss on early retirement of debt   | -0-       | -0-                 | 5,518     |
| Deferred income taxes  | 2,732     | (11,866)            | 3,680     |
| Provision for losses on accounts receivable  | 2,004     | 1,081               | 415       |
| Impairment of long-lived assets  | 1,119     | 7,155               | 13,314    |
| Restricted stock and share-based compensation  | 7,660     | 8,006               | 6,969     |
| Provision for discontinued operations  | 1,692     | 2,203               | 452       |
| Other  | 1,005     | 1,328               | 1,650     |
| Effect on cash of changes in working capital and other assets and liabilities (net of acquisitions): |           |                     |           |
| Accounts receivable  | 3,011     | (12,085)            | (2,251)   |
| Inventories  | (42,324)  | (44,345)            | 24,027    |
| Prepays and other current assets   | 5,286     | (167)               | 3,154     |
| Accounts payable   | (1,201)   | 13,641              | 11,441    |
| Other accrued liabilities  | 9,046     | 41,597              | 1,661     |
| Other assets and liabilities   | 23,270    | (3,811)             | (6,231)   |
| Net cash provided by operating activities  | 144,960   | 102,608             | 142,096   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |           |                     |           |
| Capital expenditures   | (49,456)  | (29,299)            | (33,825)  |
| Acquisitions, net of cash acquired   | (92,985)  | (75,500)            | (11,719)  |
| Proceeds from asset sales  | 27        | 11                  | 13        |
| Net cash used in investing activities  | (142,414) | (104,788)           | (45,531)  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |           |                     |           |
| Payments of long-term debt   | (25,321)  | (1,918)             | (2,623)   |
| Payments of capital leases   | (22)      | (104)               | (181)     |
| Borrowings under revolving credit facility   | 299,800   | 107,400             | 197,400   |
| Payments on revolving credit facility  | (294,800) | (107,400)           | (229,700) |
| Tax benefit of stock options and restricted stock exercised  | 4,744     | 1,448               | -0-       |
| Shares repurchased   | -0-       | (26,851)            | -0-       |
| Change in overdraft balances   | 2,931     | 4,160               | 3,102     |
| Dividends paid on non-redeemable preferred stock   | (193)     | (197)               | (198)     |
| Exercise of stock options and issue shares Employee Stock Purchase Plan                              | 9,820     | 2,343               | 499       |
| Other  | (939)     | (2,915)             | (388)     |
| Net cash used in financing activities  | (3,980)   | (24,034)            | (32,089)  |



Edgar Filing: GENESCO INC - Form 10-K

|   |                  |                 |               |
|---|------------------|-----------------|---------------|
| Effect of foreign exchange rate fluctuations on cash        | (710)            | -0-             | -0-           |
| <b>Net (Decrease) Increase in Cash and Cash Equivalents</b> | <b>(2,144)</b>   | <b>(26,214)</b> | <b>64,476</b> |
| Cash and cash equivalents at beginning of year              | <b>55,934</b>    | 82,148          | 17,672        |
| <b>Cash and cash equivalents at end of year</b>             | <b>\$ 53,790</b> | \$ 55,934       | \$ 82,148     |
| <b>Supplemental Cash Flow Information:</b>                  |                  |                 |               |
| Net cash paid for:  |                  |                 |               |
| Interest  | <b>\$ 4,789</b>  | \$ 748          | \$ 1,596      |
| Income taxes  | <b>50,254</b>    | 24,079          | 13,386        |

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

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

## 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 | Accum<br>Other<br>Compre-<br>hensive<br>Loss | Treasury<br>Stock | Non<br>Control-<br>ling<br>Interest<br>Non-<br>Redeem-<br>able | Compre-<br>hensive<br>Income | Total<br>Equity |
|--|---|-----------------|----------------------------------|----------------------|--|-------------------|--|------------------------------|-----------------|
| Balance January 31, 2009   | \$ 5,203                                      | \$ 19,732       | \$ 49,780                        | \$ 423,595           | \$ (30,698)                                  | \$ (17,857)       | \$ -0-   |                              | \$ 449,755      |
| Net earnings   | -0-   | -0-             | -0-                              | 28,813               | -0-  | -0-               | -0-  | \$ 28,813                    | 28,813          |
| Dividends paid on non-redeemable preferred stock                         | -0-   | -0-             | -0-                              | (198)                | -0-  | -0-               | -0-  | -0-                          | (198)           |
| Exercise of stock options  | -0-   | 28              | 372                              | -0-                  | -0-  | -0-               | -0-  | -0-                          | 400             |
| Issue shares Employee Stock Purchase Plan                                | -0-   | 4               | 95                               | -0-                  | -0-  | -0-               | -0-  | -0-                          | 99              |
| Employee and non-employee restricted stock                               | -0-   | -0-             | 6,528                            | -0-                  | -0-  | -0-               | -0-  | -0-                          | 6,528           |
| Share-based compensation   | -0-   | -0-             | 441                              | -0-                  | -0-  | -0-               | -0-  | -0-                          | 441             |
| Restricted stock issuance  | -0-   | 405             | (405)                            | -0-                  | -0-  | -0-               | -0-  | -0-                          | -0-             |
| Restricted shares withheld for taxes                                     | -0-   | (65)            | (1,156)                          | -0-                  | -0-  | -0-               | -0-  | -0-                          | (1,221)         |
| Tax expense of stock options and restricted stock exercised              | -0-   | -0-             | (658)                            | -0-                  | -0-  | -0-               | -0-  | -0-                          | (658)           |
| Shares repurchased   | -0-   | (85)            | (1,942)                          | -0-                  | -0-  | -0-               | -0-  | -0-                          | (2,027)         |
| Conversion of 4 1/8% debentures  | -0-   | 4,553           | 93,933                           | -0-                  | -0-  | -0-               | -0-  | -0-                          | 98,486          |
| Loss on foreign currency forward contracts (net of tax of \$0.1 million) | -0-   | -0-             | -0-                              | -0-                  | (157)  | -0-               | -0-  | (157)                        | (157)           |
| Pension liability adjustment (net of tax of \$0.6 million)               | -0-   | -0-             | -0-                              | -0-                  | 1,151  | -0-               | -0-  | 1,151                        | 1,151           |
| Postretirement liability adjustment (net of tax of \$0.0 million)        | -0-   | -0-             | -0-                              | -0-                  | 14   | -0-               | -0-  | 14                           | 14              |
| Foreign currency translation adjustment                                  | -0-   | -0-             | -0-                              | -0-                  | 886  | -0-               | -0-  | 886                          | 886             |
| Other  | 17  | (9)             | (7)                              | -0-                  | -0-  | -0-               | -0-  | -0-                          | 1               |
| Comprehensive income   |   |                 |                                  |                      |  |                   |  | \$ 30,707                    |                 |
| Balance January 30, 2010   | 5,220   | 24,563          | 146,981                          | 452,210              | (28,804)                                     | (17,857)          | -0-  |                              | 582,313         |
| Net earnings   | -0-   | -0-             | -0-                              | 53,211               | -0-  | -0-               | -0-  | \$ 53,211                    | 53,211          |
| Dividends paid on non-redeemable preferred stock                         | -0-   | -0-             | -0-                              | (197)                | -0-  | -0-               | -0-  | -0-                          | (197)           |
| Exercise of stock options  | -0-   | 118             | 2,105                            | -0-                  | -0-  | -0-               | -0-  | -0-                          | 2,223           |
| Issue shares Employee Stock Purchase Plan                                | -0-   | 4               | 116                              | -0-                  | -0-  | -0-               | -0-  | -0-                          | 120             |
| Employee and non-employee restricted stock                               | -0-   | -0-             | 7,796                            | -0-                  | -0-  | -0-               | -0-  | -0-                          | 7,796           |
| Share-based compensation   | -0-   | -0-             | 210                              | -0-                  | -0-  | -0-               | -0-  | -0-                          | 210             |
| Restricted stock issuance  | -0-   | 423             | (423)                            | -0-                  | -0-  | -0-               | -0-  | -0-                          | -0-             |
| Restricted shares withheld for taxes                                     | -0-   | (82)            | (2,293)                          | -0-                  | -0-  | -0-               | -0-  | -0-                          | (2,375)         |
| Tax benefit of stock options and restricted stock exercised              | -0-   | -0-             | 1,342                            | -0-                  | -0-  | -0-               | -0-  | -0-                          | 1,342           |
| Shares repurchased   | -0-   | (864)           | (23,961)                         | -0-                  | -0-  | -0-               | -0-  | -0-                          | (24,825)        |
|  | -0-   | -0-             | -0-                              | -0-                  | 166  | -0-               | -0-  | 166                          | 166             |

Edgar Filing: GENESCO INC - Form 10-K

|   |                 |                  |                   |                   |                    |                    |                 |           |                   |
|---|-----------------|------------------|-------------------|-------------------|--------------------|--------------------|-----------------|-----------|-------------------|
| Gain on foreign currency forward contracts (net of tax of \$0.1 million)  |                 |                  |                   |                   |                    |                    |                 |           |                   |
| Pension liability adjustment (net of tax of \$2.7 million)                | -0-             | -0-              | -0-               | -0-               | 3,921              | -0-                | -0-             | 3,921     | 3,921             |
| Postretirement liability adjustment (net of tax benefit of \$0.1 million) | -0-             | -0-              | -0-               | -0-               | (131)              | -0-                | -0-             | (131)     | (131)             |
| Foreign currency translation adjustment                                   | -0-             | -0-              | -0-               | -0-               | 543                | -0-                | -0-             | 543       | 543               |
| Other   | (37)            | 1                | 37                | -0-               | -0-                | -0-                | -0-             | -0-       | 1                 |
| Noncontrolling interest non-redeemable                                    | -0-             | -0-              | -0-               | -0-               | -0-                | -0-                | 2,503           | -0-       | 2,503             |
| Comprehensive income  |                 |                  |                   |                   |                    |                    |                 |           | \$ 57,710         |
| Balance January 29, 2011  | 5,183           | 24,163           | 131,910           | 505,224           | (24,305)           | (17,857)           | 2,503           |           | 626,821           |
| Net earnings  | -0-             | -0-              | -0-               | 81,959            | -0-                | -0-                | -0-             | \$ 81,959 | 81,959            |
| Dividends paid on non-redeemable preferred stock                          | -0-             | -0-              | -0-               | (193)             | -0-                | -0-                | -0-             | -0-       | (193)             |
| Exercise of stock options   | -0-             | 390              | 9,297             | -0-               | -0-                | -0-                | -0-             | -0-       | 9,687             |
| Issue shares Employee Stock Purchase Plan                                 | -0-             | 3                | 130               | -0-               | -0-                | -0-                | -0-             | -0-       | 133               |
| Employee and non-employee restricted stock                                | -0-             | -0-              | 7,659             | -0-               | -0-                | -0-                | -0-             | -0-       | 7,659             |
| Share-based compensation  | -0-             | -0-              | 1                 | -0-               | -0-                | -0-                | -0-             | -0-       | 1                 |
| Restricted stock issuance   | -0-             | 304              | (304)             | -0-               | -0-                | -0-                | -0-             | -0-       | -0-               |
| Restricted shares withheld for taxes                                      | -0-             | (93)             | (4,034)           | -0-               | -0-                | -0-                | -0-             | -0-       | (4,127)           |
| Tax benefit of stock options and restricted stock exercised               | -0-             | -0-              | 4,585             | -0-               | -0-                | -0-                | -0-             | -0-       | 4,585             |
| Loss on foreign currency forward contracts (net of tax of \$0.0 million)  | -0-             | -0-              | -0-               | -0-               | (35)               | -0-                | -0-             | (35)      | (35)              |
| Pension liability adjustment (net of tax benefit of \$3.1 million)        | -0-             | -0-              | -0-               | -0-               | (4,670)            | -0-                | -0-             | (4,670)   | (4,670)           |
| Postretirement liability adjustment (net of tax benefit of \$0.1 million) | -0-             | -0-              | -0-               | -0-               | (109)              | -0-                | -0-             | (109)     | (109)             |
| Foreign currency translation adjustment                                   | -0-             | -0-              | -0-               | -0-               | (3,847)            | -0-                | -0-             | (3,847)   | (3,847)           |
| Other   | (226)           | (9)              | 235               | -0-               | -0-                | -0-                | -0-             | -0-       | -0-               |
| Noncontrolling interest earnings (loss)                                   | -0-             | -0-              | -0-               | -0-               | -0-                | -0-                | (254)           | -0-       | (254)             |
| Comprehensive income  |                 |                  |                   |                   |                    |                    |                 |           | \$ 73,298         |
| <b>Balance January 28, 2012</b>   | <b>\$ 4,957</b> | <b>\$ 24,758</b> | <b>\$ 149,479</b> | <b>\$ 586,990</b> | <b>\$ (32,966)</b> | <b>\$ (17,857)</b> | <b>\$ 2,249</b> |           | <b>\$ 717,610</b> |

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

---

**Table of Contents**

**Genesco Inc.**

**and Subsidiaries**

Notes to Consolidated Financial Statements

**Note 1**

**Summary of Significant Accounting Policies**

***Nature of Operations***

The Company's business includes the design and sourcing, marketing and distribution of footwear and accessories through retail stores in the U.S., Puerto Rico and Canada primarily under the *Journeys*, *Journeys Kidz*, *Shi by Journeys*, *Johnston & Murphy*, and *Underground Station* banners and under the newly acquired *Schuh* banner in the United Kingdom and the Republic of Ireland; through e-commerce websites including *journeys.com*, *journeyskidz.com*, *shibyjourneys.com*, *undergroundstation.com*, *schuh.co.uk* and *johnstonmurphy.com*, and at wholesale, primarily under the Company's *Johnston & Murphy* brand and the *Dockers* brand, which the Company licenses for men's footwear. The Company's business also includes Lids Sports, which operates headwear and accessory stores in the U.S. and Canada primarily under the *Lids*, *Hat World* and *Hat Shack* banners; the Lids Locker Room business, consisting of sports-oriented fan shops featuring a broad array of licensed merchandise such as apparel, hats and accessories, sports decor and novelty products, operating primarily under the *Lids Locker Room*, *Sports Fan-Attic* and *Sports Avenue* banners; 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 January 28, 2012, the Company operated 2,387 retail stores in the U.S., Puerto Rico, Canada, United Kingdom and the Republic of Ireland.

***Principles of Consolidation***

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

***Fiscal Year***

The Company's fiscal year ends on the Saturday closest to January 31. As a result, each of Fiscal 2012, Fiscal 2011 and Fiscal 2010 was a 52-week year with 364 days. Fiscal 2012 ended on January 28, 2012, Fiscal 2011 ended on January 29, 2011 and Fiscal 2010 ended on January 30, 2010.

***Financial Statement Reclassifications***

Certain expenses previously allocated to the corporate segment have been reallocated to operating segments beginning in Fiscal 2012. Segment operating income (loss) for Fiscal 2011 and 2010 have been restated by operating segment totaling \$6.8 million and \$4.9 million, respectively, with an offsetting increase to corporate and other operating income to conform to the current year presentation (see Note 14).

***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.

**Table of Contents**

**Genesco Inc.**

**and Subsidiaries**

Notes to Consolidated Financial Statements

**Note 1**

**Summary of Significant Accounting Policies, Continued**

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.

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.

**Table of Contents**

**Genesco Inc.**

**and Subsidiaries**

Notes to Consolidated Financial Statements

**Note 1**

**Summary of Significant Accounting Policies, Continued**

*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. 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 unit goodwill to the carrying value of the goodwill in the same manner as if the reporting unit was being acquired in a business combination. Specifically, the Company would allocate the fair value to all of the assets and liabilities of the reporting unit, including any unrecognized intangible assets, in a hypothetical analysis that would calculate the implied fair value of goodwill. If the implied fair value of goodwill is less than the recorded goodwill, the Company would record an impairment charge for the difference.

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

**Table of Contents**

**Genesco Inc.**

**and Subsidiaries**

Notes to 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 13. The Company has made pretax accruals for certain of these contingencies, including approximately \$1.8 million in Fiscal 2012, \$2.9 million in Fiscal 2011 and \$0.8 million in Fiscal 2010, respectively. These charges are included in provision for discontinued operations, net in the Consolidated Statements of Operations (see Note 3). The Company monitors these matters on an ongoing basis and, on a quarterly basis, management reviews the Company's reserves and accruals in relation to each of them, adjusting provisions as management deems necessary in view of changes in available information. Changes in estimates of liability are reported in the periods when they occur. Consequently, management believes that its reserve in relation to each proceeding is a best estimate of probable loss connected to the proceeding, or in cases in which no best estimate is possible, the minimum amount in the range of estimated losses, based upon its analysis of the facts and circumstances as of the close of the most recent fiscal quarter. However, because of uncertainties and risks inherent in litigation generally and in environmental proceedings in particular, there can be no assurance that future developments will not require additional reserves to be set aside, that some or all reserves will be adequate or that the amounts of any such additional reserves or any such inadequacy will not have a material adverse effect upon the Company's financial condition or results of operations.

*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.

---

**Table of Contents**

**Genesco Inc.**

**and Subsidiaries**

Notes to Consolidated Financial Statements

**Note 1**

**Summary of Significant Accounting Policies, Continued**

*Income Taxes*

As part of the process of preparing 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 Consolidated Balance Sheets. The Company then assesses the likelihood that its deferred tax assets will be recovered from future taxable income. Actual results could differ from this assessment if adequate taxable income is not generated in future periods. To the extent the Company believes that recovery of an asset is at risk, valuation allowances are established. To the extent valuation allowances are established or increased in a period, the Company includes an expense within the tax provision in the 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 other 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 January 28, 2012, the Company had a deferred tax valuation allowance of \$3.8 million. The Company recorded an effective income tax rate of 40.2% for Fiscal 2012 compared to 35.8% for Fiscal 2011. This year's rate is higher due to transaction costs and deferred purchase price related to the Schuh acquisition which are considered permanent differences. The rate for Fiscal 2011 was unusually low reflecting the net reduction of the Company's liability for uncertain tax positions of \$1.3 million in Fiscal 2011.

Income tax reserves are determined using the methodology required by the Income Tax Topic of the 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.



**Table of Contents**

**Genesco Inc.**

**and Subsidiaries**

Notes to Consolidated Financial Statements

**Note 1**

**Summary of Significant Accounting Policies, Continued**

*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.

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 Consolidated Balance Sheets and to recognize changes in that funded status in accumulated other comprehensive loss, net of tax, in the year in which the changes occur.

The Company accounts for the defined benefit pension plans using the Compensation-Retirement Benefits Topic of the Codification. As permitted under this topic, pension expense is recognized on an accrual basis over employees' approximate service periods. The calculation of pension expense and the corresponding liability requires the use of a number of critical assumptions, including the expected long-term rate of return on plan assets and the assumed discount rate, as well as the recognition of actuarial gains and losses. Changes in these assumptions can result in different expense and liability amounts, and future actual experience can differ from these assumptions.

*Share-Based Compensation*

The Company has share-based compensation plans covering certain members of management and non-employee directors. The Company recognizes compensation expense for share-based payments based on the fair value of the awards as required by the Compensation – Stock Compensation Topic of the Codification. For Fiscal 2012, 2011 and 2010, share-based compensation expense was less than \$1,000, \$0.2 million and \$0.5 million, respectively. The Company did not issue any new share-based compensation awards in Fiscal 2012, 2011 or 2010. For Fiscal 2012, 2011 and 2010, restricted stock expense was \$7.7 million, \$7.8 million and \$6.5 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.

**Table of Contents**

**Genesco Inc.**

**and Subsidiaries**

Notes to Consolidated Financial Statements

**Note 1**

**Summary of Significant Accounting Policies, Continued**

***Cash and Cash Equivalents***

Included in cash and cash equivalents at January 28, 2012 and January 29, 2011 are cash equivalents of \$0.2 million and \$29.8 million, respectively. Cash equivalents are highly-liquid financial instruments having an original maturity of three months or less. At January 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 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 January 28, 2012 and January 29, 2011 outstanding checks drawn on zero-balance accounts at certain domestic banks exceeded book cash balances at those banks by approximately \$39.0 million and \$36.1 million, respectively. These amounts are included in accounts payable.

***Concentration of Credit Risk and Allowances on Accounts Receivable***

The Company's footwear wholesale businesses sell primarily to independent retailers and department stores across the United States. Receivables arising from these sales are not collateralized. Customer credit risk is affected by conditions or occurrences within the economy and the retail industry as well as by customer specific factors. The Company's Lids Team Sports wholesale business sells primarily to 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 5% of the Company's total trade receivables balance, while no other customer accounted for more than 4% of the Company's total trade receivables balance as of January 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.

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

Notes to Consolidated Financial Statements

**Note 1****Summary of Significant Accounting Policies, Continued*****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 Consolidated Statements of Operations.

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

The Company occasionally receives reimbursements from landlords to be used towards construction of the store the Company intends to lease. Leasehold improvements are recorded at their gross costs including items reimbursed by landlords. The reimbursements are amortized as a reduction of rent expense over the initial lease term.

***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.

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

Notes to Consolidated Financial Statements

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

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 Consolidated Balance Sheets include goodwill for the Lids Sports Group of \$159.1 million, \$99.9 million for the Schuh Group and \$0.8 million for Licensed Brands at January 28, 2012 and for the Lids Sports Group of \$152.5 million and \$0.8 million for Licensed Brands at January 29, 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 primarily trademarks acquired in connection with the acquisition of Hat Shack, Inc. in January 2007, Impact Sports in November 2008, Great Plains Sports in September 2009, Sports Fan-Attic in November 2009, Brand Innovators in May 2010, Anaconda Sports in August 2010, Keuka Footwear in August 2010 and Sports Avenue in October 2010, customer lists, in-place leases, non-compete agreements and a vendor contract. They are subject to amortization based upon their estimated useful lives. Finite-lived intangible assets are evaluated for impairment using a process similar to that used to evaluate other definite-lived long-lived assets, a comparison of the fair value of the intangible asset with its carrying amount. An impairment loss is recognized for the amount by which the carrying value exceeds the fair value of the asset.

***Fair Value of Financial Instruments***

The carrying amounts and fair values of the Company's financial instruments at January 28, 2012 and January 29, 2011 are:

***Fair Values***

| In thousands        | January 28,<br>2012 |               | January 29,<br>2011 |               |
|---------------------|---------------------|---------------|---------------------|---------------|
|                     | Carrying<br>Amount  | Fair<br>Value | Carrying<br>Amount  | Fair<br>Value |
| Revolver Borrowings | \$ 5,000            | \$ 5,021      | \$ -0-              | \$ -0-        |
| UK Term Loans       | 35,704              | 35,387        | -0-                 | -0-           |

Debt fair values were determined using the income approach which measures the value of an asset by the present value of its future economic benefits.

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

**Table of Contents**

**Genesco Inc.**

**and Subsidiaries**

Notes to Consolidated Financial Statements

**Note 1**

**Summary of Significant Accounting Policies, Continued**

***Cost of Sales***

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

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

***Selling and Administrative Expenses***

Selling and administrative expenses include all operating costs of the Company excluding (i) those related to the transportation of products from the supplier to the warehouse, (ii) for its retail operations, those related to the transportation of products from the warehouse to the store and (iii) costs of its distribution facilities which are allocated to its retail operations. Wholesale and unallocated retail costs of distribution are included in selling and administrative expenses in the amounts of \$9.2 million, \$5.9 million and \$4.8 million for Fiscal 2012, Fiscal 2011 and Fiscal 2010, respectively.

***Gift Cards***

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

Gift card breakage is recognized in revenues each period. Gift card breakage recognized as revenue was \$0.6 million, \$0.7 million and \$0.7 million for Fiscal 2012, 2011 and 2010, respectively. The Consolidated Balance Sheets include an accrued liability for gift cards of \$10.4 million and \$9.0 million at January 28, 2012 and January 29, 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.

**Table of Contents**

**Genesco Inc.**

**and Subsidiaries**

Notes to Consolidated Financial Statements

**Note 1**

**Summary of Significant Accounting Policies, Continued**

***Shipping and Handling Costs***

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

***Preopening Costs***

Costs associated with the opening of new stores are expensed as incurred, and are included in selling and administrative expenses on the accompanying 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 Consolidated Statements of Operations, if material individually or cumulatively. To date, no store closings meeting the discontinued operations criteria have been material individually or cumulatively.

Assets related to planned store closures or other exit activities are reflected as assets held for sale and recorded at the lower of carrying value or fair value less costs to sell when the required criteria, as defined by the Property, Plant and Equipment Topic of the Codification, are satisfied. Depreciation ceases on the date that the held for sale criteria are met.

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

Exit costs related to anticipated lease termination costs, severance benefits and other expected charges are accrued for and recognized in accordance with the Exit or Disposal Cost Obligations Topic of the Codification.

**Table of Contents**

**Genesco Inc.**

**and Subsidiaries**

Notes to Consolidated Financial Statements

**Note 1**

**Summary of Significant Accounting Policies, Continued**

***Advertising Costs***

Advertising costs are predominantly expensed as incurred. Advertising costs were \$42.5 million, \$35.1 million and \$33.8 million for Fiscal 2012, 2011 and 2010, 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 realized from such advertising, not to exceed six months. The Consolidated Balance Sheets include prepaid assets for direct response advertising costs of \$1.1 million at both January 28, 2012 and January 29, 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 \$3.3 million, \$3.2 million and \$2.8 million for Fiscal 2012, 2011 and 2010, respectively. During Fiscal 2012, 2011 and 2010, 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 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 \$3.0 million, \$3.1 million and \$3.6 million for Fiscal 2012, 2011 and 2010, respectively. During Fiscal 2012, 2011 and 2010, 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 11).



**Table of Contents**

**Genesco Inc.**

**and Subsidiaries**

Notes to Consolidated Financial Statements

**Note 1**

**Summary of Significant Accounting Policies, Continued**

***Other Comprehensive Income***

The Comprehensive Income Topic of the Codification requires, among other things, the Company's pension liability adjustment, postretirement liability adjustment, unrealized gains or losses on foreign currency forward contracts and foreign currency translation adjustments to be included in other comprehensive income net of tax. Accumulated other comprehensive loss at January 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 \$3.1 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 14).

***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 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 January 28, 2012 or January 29, 2011. For the year ended January 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 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 Consolidated Financial Statements

**Note 1**

**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. This update becomes effective in periods beginning after December 15, 2011 and is required to be adopted retrospectively. Early adoption is permitted. The Company is currently evaluating which of the two presentation alternatives it will adopt, but it is not expected to have a significant impact on the Company's results of operations or financial position.

In September 2011, the FASB issued Accounting Standards Update No. 2011-08, an update to FASB Codification Intangibles - Goodwill and Other Topic, which amends the existing accounting standards related to the method of assessing goodwill for potential impairment. Specifically, this update limits the requirement for a company to perform a quantitative goodwill impairment test to situations in which management believes it is more likely than not that the fair value of a reporting unit is less than its carrying amount. This update becomes effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. The Company will adopt this update in Fiscal 2013 which begins January 29, 2012. The Company does not expect the adoption of this update to have a significant impact on the Company's results of operations or financial position.

In December 2011, the FASB issued Accounting Standards Update No. 2011-12, an update to the FASB Codification Comprehensive Income Topic, which defers the specific requirement to present items that are reclassified from accumulated other comprehensive income to net earnings separately with their respective components of net earnings and other comprehensive income. The update does not defer the requirement to report comprehensive income either in a single continuous statement or in two separate but consecutive financial statements. This update becomes effective in periods beginning after December 15, 2011. The Company does not expect the adoption of this update to have a significant impact on the Company's results of operations or financial position.

**Table of Contents**

**Genesco Inc.**

**and Subsidiaries**

Notes to Consolidated Financial Statements

**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 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 until satisfaction of certain closing conditions. 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. During the fiscal year ended January 28, 2012, compensation expense related to the Schuh acquisition deferred purchase price obligation was \$7.2 million. This expense is included in operating income for the Schuh Group segment.

Headquartered in Scotland, Schuh is a specialty retailer of casual and athletic footwear sold through 64 retail stores in the United Kingdom and the Republic of Ireland and 14 concessions in Republic apparel stores as of January 28, 2012. The Company believes the acquisition will 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 fiscal year from the date of acquisition through January 28, 2012, including net sales of \$212.3 million and operating income of \$11.7 million, have been included in the Company's Consolidated Financial Statements for the fiscal year ended January 28, 2012. During the fiscal year ended January 28, 2012, the Company expensed \$7.4 million in costs related to the acquisition. These costs were recorded as selling and administrative expenses on the Consolidated Statements of Operations.

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

Notes to Consolidated Financial Statements

**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)          |
| <b>Net Assets Acquired</b>                | <b>\$ 115,754</b> |

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.

The recorded amounts above are provisional and subject to change. Specifically, the following items are subject to change:

- Amounts for income tax assets, receivables and liabilities pending further review of Schuh's pre-acquisition tax information, which may change certain estimates and assumptions used.

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.



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

Notes to Consolidated Financial Statements

**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. Pro forma earnings for the twelve months ended January 28, 2012 have been adjusted to exclude \$7.4 million of costs related to the acquisition.

| <b>In thousands, except per share data</b> | Twelve Months Ended -<br>Pro forma<br>January 28, 2012 | Twelve Months Ended -<br>Pro forma<br>January 29, 2011 |
|--|--|--|
| Net sales                                  | \$ 2,384,267   | \$ 2,045,473   |
| Earnings from continuing operations        | 86,378   | 57,897   |
| <b>Earnings per share:</b>                 |  |  |
| Basic                                      | \$ 3.71  | \$ 2.49  |
| Diluted                                    | \$ 3.62  | \$ 2.44  |

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                    |                  |
|------------------------------|--------------------------|------------------|--------------------------|-----------------|--------------------------|------------------|--------------------------|------------------|
|                              | <b>Jan. 28,<br/>2012</b> | Jan. 29,<br>2011 | <b>Jan. 28,<br/>2012</b> | Jan 29,<br>2011 | <b>Jan. 28,<br/>2012</b> | Jan. 29,<br>2011 | <b>Jan. 28,<br/>2012</b> | Jan. 29,<br>2011 |
| Gross other intangibles      | <b>\$ 12,390</b>         | \$ 9,837         | <b>\$ 14,062</b>         | \$ 12,206       | <b>\$ 2,001</b>          | \$ 1,100         | <b>\$ 28,453</b>         | \$ 23,143        |
| Accumulated amortization     | <b>(9,477)</b>           | (8,482)          | <b>(3,292)</b>           | (1,480)         | <b>(876)</b>             | (603)            | <b>(13,645)</b>          | (10,565)         |
| <b>Net Other Intangibles</b> | <b>\$ 2,913</b>          | \$ 1,355         | <b>\$ 10,770</b>         | \$ 10,726       | <b>\$ 1,125</b>          | \$ 497           | <b>\$ 14,808</b>         | \$ 12,578        |

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

The amortization of intangibles was \$4.2 million, \$2.5 million and \$0.9 million for Fiscal 2012, 2011 and 2010, respectively. The amortization of intangibles will be \$4.6 million, \$4.1 million, \$3.1 million, \$2.1 million and \$1.7 million for Fiscal 2013, 2014, 2015, 2016 and 2017, respectively.



## **Table of Contents**

### **Genesco Inc.**

### **and Subsidiaries**

Notes to Consolidated Financial Statements

### **Note 3**

#### **Restructuring and Other Charges and Discontinued Operations**

##### **Restructuring and Other Charges**

In accordance with Company policy, assets are determined to be impaired when the revised estimated future cash flows are insufficient to recover the carrying costs. Impairment charges represent the excess of the carrying value over the fair value of those assets.

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

The Company recorded a pretax charge to earnings of \$2.7 million in Fiscal 2012. The charge reflected in restructuring and other, net, included \$1.1 million for retail store asset impairments, \$0.9 million for other legal matters and \$0.7 million for expenses related to the computer network intrusion. For additional information on the computer network intrusion, see Note 13.

The Company recorded a pretax charge to earnings of \$8.6 million in Fiscal 2011. The charge reflected in restructuring and other, net, included \$7.2 million for retail store asset impairments, \$1.3 million for expenses related to the computer network intrusion and \$0.1 million for other legal matters.

The Company recorded a pretax charge to earnings of \$13.5 million in Fiscal 2010. The charge reflected in restructuring and other, net, included \$13.3 million for retail store asset impairments and \$0.4 million for lease terminations offset by \$0.3 million for other legal matters. Also included in the charge was \$0.1 million in excess markdowns related to the lease terminations which is reflected in cost of sales on the Consolidated Statements of Operations.

##### **Discontinued Operations**

In Fiscal 2012, the Company recorded an additional charge to earnings of \$1.7 million (\$1.0 million net of tax) reflected in discontinued operations, including \$1.8 million primarily for anticipated costs of environmental remedial alternatives related to former facilities operated by the Company, offset by a \$0.1 million gain for excess provisions to prior discontinued operations (see Note 13).

In Fiscal 2011, the Company recorded an additional charge to earnings of \$2.2 million (\$1.3 million net of tax) reflected in discontinued operations, including \$2.9 million primarily for anticipated costs of environmental remedial alternatives related to former facilities operated by the Company, offset by a \$0.7 million gain for excess provisions to prior discontinued operations (see Note 13).



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

Notes to Consolidated Financial Statements

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

In Fiscal 2010, the Company recorded an additional charge to earnings of \$0.5 million (\$0.3 million net of tax) reflected in discontinued operations, including \$0.8 million primarily for anticipated costs of environmental remedial alternatives related to former facilities operated by the Company, offset by a \$0.3 million gain for excess provisions to prior discontinued operations (see Note 13).

**Accrued Provision for Discontinued Operations**

| <b>In thousands</b>   | <b>Facility<br/>Shutdown<br/>Costs</b> |
|---|--|
| Balance January 30, 2010                                      | \$ 15,414                              |
| Additional provision Fiscal 2011                              | 2,203                                  |
| Charges and adjustments, net                                  | (2,582)                                |
| Balance January 29, 2011                                      | 15,035                                 |
| Additional provision Fiscal 2012                              | 1,692                                  |
| Charges and adjustments, net                                  | (4,210)                                |
| Balance January 28, 2012*                                     | 12,517                                 |
| <b>Current provision for discontinued operations</b>          | <b>8,250</b>                           |
| <b>Total Noncurrent Provision for Discontinued Operations</b> | <b>\$ 4,267</b>                        |

\*Includes a \$13.0 million environmental provision, including \$8.8 million in current provision for discontinued operations.

**Note 4****Inventories**

| <b>In thousands</b>      | <b>January 28,<br/>2012</b> | <b>January 29,<br/>2011</b> |
|--------------------------|-----------------------------|-----------------------------|
| Raw materials            | \$ 30,636                   | \$ 11,952                   |
| Goods in process         | -0-                         | 338                         |
| Wholesale finished goods | 53,453                      | 47,866                      |
| Retail merchandise       | 351,024                     | 299,580                     |

|                          |                   |                   |
|--------------------------|-------------------|-------------------|
| <b>Total Inventories</b> | <b>\$ 435,113</b> | <b>\$ 359,736</b> |
|--------------------------|-------------------|-------------------|

**Table of Contents**

**Genesco Inc.**

**and Subsidiaries**

Notes to Consolidated Financial Statements

**Note 5**

**Fair Value**

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

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

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

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

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

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

Notes to Consolidated Financial Statements

**Note 5****Fair Value, Continued**

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

|                                 | Long-Lived Assets |         |         |         | Total<br>Losses |
|---------------------------------|-------------------|---------|---------|---------|-----------------|
|                                 | Held and Used     | Level 1 | Level 2 | Level 3 |                 |
| Measured as of April 30, 2011   | \$ 548            | \$      | \$      | \$ 548  | \$ 747          |
| Measured as of July 30, 2011    | \$ 189            | \$      | \$      | \$ 189  | \$ 313          |
| Measured as of October 29, 2011 | \$ 65             | \$      | \$      | \$ 65   | \$ 43           |
| Measured as of January 28, 2012 | \$ 6              | \$      | \$      | \$ 6    | \$ 16           |

In accordance with the Property, Plant and Equipment Topic of the Codification, the Company recorded \$1.1 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 twelve months ended January 28, 2012. These charges are reflected in restructuring and other, net on the Consolidated Statements of Operations.

The Company used a discounted cash flow model to estimate the fair value of these long-lived assets at January 28, 2012. 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.

**Table of Contents**

Genesco Inc.

and Subsidiaries

Notes to Consolidated Financial Statements

Note 6

**Long-Term Debt**

| In thousands                                      | January 28,<br>2012 | January 29,<br>2011 |
|---|---------------------|---------------------|
| Revolver borrowings                               | \$ 5,000            | \$ -0-              |
| UK term loans                                     | 35,704              | -0-                 |
| <b>Total long-term debt</b>                       | <b>40,704</b>       | <b>-0-</b>          |
| Current portion                                   | 8,773               | -0-                 |
| <b>Total Noncurrent Portion of Long-Term Debt</b> | <b>\$ 31,931</b>    | <b>\$ -0-</b>       |

Long-term debt maturing during each of the next five years ending January is \$8.8 million, \$5.5 million, \$5.5 million, \$20.9 million and \$0.0 million.

***Credit Agreement:***

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 by and among the Company, certain subsidiaries of the Company party thereto, as other borrowers, the lenders party thereto and Bank of America, N.A., as administrative agent and collateral agent. The Amendment raised the aggregate principal amount on the credit facility to \$375.0 million from \$300.0 million. The Credit Facility was amended to permit the Schuh acquisition (see Note 2). The Credit Facility expires January 21, 2016.

Deferred financing costs incurred of \$3.0 million related to the Credit Facility were capitalized and are being amortized over five years. Deferred financing costs incurred of \$0.7 million related to the Amendment were also capitalized and are being amortized over five years. These costs are included in other non-current assets on the Consolidated Balance Sheets.

The Company had \$5.0 million revolver borrowings outstanding under the Credit Facility at January 28, 2012 and \$35.7 million in term loans outstanding under the U.K. Credit Facility (described below) at January 28, 2012. The Company had outstanding letters of credit of \$10.1 million under the Credit Facility at January 28, 2012. These letters of credit support product purchases and lease and insurance indemnifications.

---

**Table of Contents**

**Genesco Inc.**

**and Subsidiaries**

Notes to Consolidated Financial Statements

**Note 6**

**Long-Term Debt, Continued**

The material terms of the Credit Facility, as amended, are as follows:

**Availability**

The amended Credit Facility is a revolving credit facility 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. The Company canceled its Tranche A-1 sublimit of up to \$30.0 million as of December 27, 2011. The facility has a five-year term. Any swingline loans and any letters of credit and borrowings under the Canadian facility will reduce the availability under the Credit Facility on a dollar-for-dollar basis. In addition, the Company has an option to increase the availability under the Credit Facility by up to \$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 eligible wholesale receivables of the Lids Team Sports business) plus 90% of eligible credit card and debit card receivables less applicable reserves.

**Collateral**

The loans and other obligations under the Credit Facility are secured by a perfected first priority lien and security interest in all tangible and intangible assets and excludes real estate and leaseholds of the Company and certain subsidiaries of the Company. In addition, with the amendment to the Credit Facility, the Company pledged 65% of its interest in Genesco (UK) Limited.

**Interest and Fees**

The Company's borrowings under the Credit Facility bear interest at varying rates that, at the Company's option, can be based on:

Domestic Facility

(a) LIBOR plus the applicable margin (as defined and based on average Excess Availability during the prior quarter or (b) the applicable margin plus the higher of (i) the Bank of America prime rate, (ii) the federal funds rate plus 0.50% or (iii) LIBOR for an interest period of thirty days plus 1.0%

---

**Table of Contents**

**Genesco Inc.**

**and Subsidiaries**

Notes to Consolidated Financial Statements

**Note 6**

**Long-Term Debt, Continued**

Canadian Sub-Facility

(a) For loans made in Canadian dollars, the bankers' acceptances ( BA ) rate plus the applicable margin or (b) the Canadian Prime Rate (defined as the highest of the (i) Bank of America Canadian Prime Rate, (ii) 0.50% plus the Bank of America (Canadian) overnight rate, and (iii) 1.0% plus the BA rate for a 30 day interest period) plus the applicable margin for loans made in U.S. dollars, LIBOR plus the applicable margin or the U.S. Index Rate (defined as the highest of the (i) Bank of America (Canada branch) U.S. dollar base rate, (ii) the Federal Funds rate plus 0.50%, and (iii) LIBOR for an interest period of thirty days plus 1.0%) plus the applicable margin.

The initial applicable margin for base rate loans and U.S. Index rate loans is 1.25% and the initial applicable margin for LIBOR loans and BA equivalent loans is 2.25%. Thereafter, the applicable margin will be subject to adjustment based on Excess Availability for the prior quarter. The term Excess Availability means, as of any given date, the excess (if any) of the Loan Cap (being the lesser of the total commitments and the Borrowing Base) over the outstanding credit extensions under the Credit Facility.

Interest on the Company's borrowings is payable monthly in arrears for base rate loans and U.S. Index rate loans and at the end of each interest rate period (but not less often than quarterly) for LIBOR loans and BA equivalent loans.

The Company is also required to pay a commitment fee on the actual daily unused portions of the Credit Facility at a rate of (i) 0.50% per annum if less than 50% of the Credit Facility has been utilized on average during the immediately preceding fiscal quarter or (ii) 0.375% per annum if 50% or more of the Credit Facility has been utilized during such fiscal quarter.

**Certain Covenants**

The Company is not required to comply with any financial covenants unless Excess Availability 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 \$272.4 million at January 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 January 28, 2012.

---

**Table of Contents**

**Genesco Inc.**

**and Subsidiaries**

Notes to Consolidated Financial Statements

**Note 6**

**Long-Term Debt, Continued**

In addition, the Credit Facility contains certain covenants that, among other things, restrict additional indebtedness, liens and encumbrances, loans and investments, acquisitions, dividends and other restricted payments, transactions with affiliates, asset dispositions, mergers and consolidations, prepayments or material amendments of other indebtedness and other matters customarily restricted in such agreements. The Amended Credit Facility permits the Company to incur up to \$250.0 million of senior debt provided that certain terms and conditions are met.

**Cash Dominion**

The Credit Facility also contains cash dominion provisions that apply in the event that the Company's Excess Availability is less than the greater of \$35.0 million or 15% of the Loan Cap or there is an event of default under the Credit Facility.

**Events of Default**

The Credit Facility contains customary events of default, including, without limitation, payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults to certain other material indebtedness in excess of specified amounts and to agreements which would have a material adverse effect if breached, certain events of bankruptcy and insolvency, certain ERISA events, judgments in excess of specified amounts and change in control.

Certain of the lenders under the Credit Facility or their affiliates have provided, and may in the future provide, certain commercial banking, financial advisory, and investment banking services in the ordinary course of business for the Company, its subsidiaries and certain of its affiliates, for which they receive customary fees and commissions.

**U.K. Credit Facility**

In connection with the Schuh acquisition, Schuh entered into an amended and restated Senior Term Facilities Agreement and Working Capital Facility Letter (collectively, the UK Credit Facility) 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 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. The working capital facility bears interest at the Base Rate (as defined) plus 2.25% per annum.

The UK Credit Facility contains 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 January 28, 2012.



---

**Table of Contents**

**Genesco Inc.**

**and Subsidiaries**

Notes to Consolidated Financial Statements

**Note 6**

**Long-Term Debt, Continued**

The UK Credit Facility is secured by a pledge of all the assets of Schuh and its subsidiaries.

***4 1/8% Convertible Subordinated Debentures due 2023:***

On June 24, 2003 and June 26, 2003, the Company issued a total of \$86.3 million of 4 1/8% Convertible Subordinated Debentures (the Debentures ) due June 15, 2023. The Debentures were convertible at the option of the holders into shares of the Company's common stock, par value \$1.00 per share: (1) in any quarter in which the price of its common stock issuable upon conversion of a Debenture reached 120% or more of the conversion price (\$24.07 or more) for 10 of the last 30 trading days of the immediately preceding fiscal quarter, (2) if specified corporate transactions occurred or (3) if the trading price for the Debentures fell below certain thresholds. Upon conversion, the Company would have the right to deliver, in lieu of its common stock, cash or a combination of cash and shares of its common stock. Subject to the above conditions, each \$1,000 principal amount of Debentures was convertible into 49.8462 shares (equivalent to a conversion price of \$20.06 per share of common stock) subject to adjustment. There were \$30,000 of debentures converted to 1,356 shares of common stock during Fiscal 2008.

On April 29, 2009, the Company entered into separate exchange agreements whereby it acquired and retired \$56.4 million in aggregate principal amount (\$51.3 million fair value) of its Debentures due June 15, 2023 in exchange for the issuance of 3,066,713 shares of its common stock, which include 2,811,575 shares that were reserved for conversion of the Debentures and 255,138 additional inducement shares, and a cash payment of approximately \$0.9 million. The inducement was not deductible for tax purposes. During the fourth quarter of Fiscal 2010, holders of an aggregate of \$21.04 million principal amount of its 4 1/8% Convertible Subordinated Debentures were converted to 1,048,764 shares of common stock pursuant to separate conversion agreements which provided for payment of an aggregate of \$0.3 million to induce conversion. On November 4, 2009, the Company issued a notice of redemption to the remaining holders of the \$8.775 million outstanding 4 1/8% Convertible Subordinated Debentures. As permitted by the Indenture, holders of all except \$1,000 in principal amount of the remaining Debentures converted their Debentures to 437,347 shares of common stock prior to the redemption date of December 3, 2009. As a result of the exchange agreements and conversions, the Company recognized a loss on the early retirement of debt of \$5.5 million in Fiscal 2010, reflected on the Consolidated Statements of Operations. After the exchanges and conversions there was zero aggregate principal amount of Debentures outstanding.

Deferred financing costs of \$2.9 million relating to the issuance were initially capitalized and being amortized over seven years. As a result of adoption of the FASB's Debt with Conversion and Other Options Sub-Topic of the Codification, \$0.7 million was reclassified from deferred note expense to additional paid-in capital. Due to the exchanges and conversions, deferred financing costs of \$0.3 million were written off and included in loss on early retirement of debt in the Consolidated Statements of Operations for Fiscal 2010.

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

Notes to Consolidated Financial Statements

**Note 7****Commitments Under Long-Term Leases*****Operating Leases***

The Company leases its office space and all of its retail store locations and transportation equipment under various noncancelable operating leases. The leases have varying terms and expire at various dates through 2031. The store leases in the United States, Puerto Rico and Canada typically have initial terms of between 5 and 10 years. The stores leases in the United Kingdom and the Republic of Ireland typically have initial terms of between 10 and 35 years. Generally, most of the leases require the Company to pay taxes, insurance, maintenance costs and contingent rentals based on sales. Approximately 3% of the Company's leases contain renewal options.

Rental expense under operating leases of continuing operations was:

| <b>In thousands</b>         | <b>2012</b>       | 2011       | 2010       |
|-----------------------------|-------------------|------------|------------|
| Minimum rentals             | <b>\$ 192,175</b> | \$ 167,558 | \$ 159,553 |
| Contingent rentals          | <b>12,918</b>     | 5,827      | 4,780      |
| Sublease rentals            | <b>(686)</b>      | (642)      | (652)      |
| <b>Total Rental Expense</b> | <b>\$ 204,407</b> | \$ 172,743 | \$ 163,681 |

Minimum rental commitments payable in future years are:

| <b>Fiscal Years</b>                     | <b>In Thousands</b> |
|---|---------------------|
| 2013                                    | \$ 202,882          |
| 2014                                    | 189,333             |
| 2015                                    | 172,452             |
| 2016                                    | 150,368             |
| 2017                                    | 124,056             |
| Later years                             | 294,881             |
| <b>Total Minimum Rental Commitments</b> | <b>\$ 1,133,972</b> |

For leases that contain predetermined fixed escalations of the minimum rentals, the related rental expense is recognized on a straight-line basis and the cumulative expense recognized on the straight-line basis in excess of the cumulative payments is included in deferred rent and other long-term liabilities on the Consolidated Balance Sheets. The Company occasionally receives reimbursements from landlords to be used towards construction of the store the Company intends to lease. Leasehold improvements are recorded at their gross costs including items reimbursed by landlords. The reimbursements are amortized as a reduction of rent expense over the initial lease term. Tenant allowances of \$17.6 million and \$18.4 million for Fiscal 2012 and 2011, respectively, and deferred rent of \$35.2 million and \$33.0 million for Fiscal 2012 and 2011, respectively, are included in deferred rent and other long-term liabilities on the Consolidated Balance Sheets.



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

Notes to Consolidated Financial Statements

**Note 8****Equity****Non-Redeemable Preferred Stock**

| Class (In order of preference)*               | Shares<br>Authorized | Number of Shares |        |        | Amounts in Thousands |          |          | Common<br>Convertible<br>Ratio | No. of<br>Votes |
|---|----------------------|------------------|--------|--------|----------------------|----------|----------|--------------------------------|-----------------|
|   |                      | 2012             | 2011   | 2010   | 2012                 | 2011     | 2010     |                                |                 |
| Subordinated Serial Preferred<br>(Cumulative) |                      |                  |        |        |                      |          |          |                                |                 |
| Aggregate                                     | 3,000,000**          |                  |        |        |                      |          |          | N/A                            | N/A             |
| \$2.30 Series 1                               | 64,368               | <b>30,368</b>    | 33,497 | 33,497 | <b>\$ 1,215</b>      | \$ 1,340 | \$ 1,340 | .83                            | 1               |
| \$4.75 Series 3                               | 40,449               | <b>11,643</b>    | 12,163 | 12,326 | <b>1,164</b>         | 1,216    | 1,233    | 2.11                           | 2               |
| \$4.75 Series 4                               | 53,764               | <b>3,397</b>     | 3,579  | 3,579  | <b>340</b>           | 358      | 358      | 1.52                           | 1               |
| Series 6                                      | 800,000              | <b>-0-</b>       | -0-    | -0-    | <b>-0-</b>           | -0-      | -0-      |                                | 100             |
| \$1.50 Subordinated Cumulative Preferred      |                      |                  |        |        |                      |          |          |                                |                 |
|   | 5,000,000            | <b>30,067</b>    | 30,067 | 30,067 | <b>902</b>           | 902      | 902      |                                | 1               |
|   |                      | <b>75,475</b>    | 79,306 | 79,469 | <b>3,621</b>         | 3,816    | 3,833    |                                |                 |
| Employees Subordinated Convertible Preferred  |                      |                  |        |        |                      |          |          |                                |                 |
|   | 5,000,000            | <b>47,922</b>    | 49,192 | 50,350 | <b>1,437</b>         | 1,476    | 1,510    | 1.00***                        | 1               |
| Stated Value of Issued Shares                 |                      |                  |        |        |                      |          |          |                                |                 |
|   |                      |                  |        |        | <b>5,058</b>         | 5,292    | 5,343    |                                |                 |
| Employees Preferred Stock Purchase Accounts   |                      |                  |        |        |                      |          |          |                                |                 |
|   |                      |                  |        |        | <b>(101)</b>         | (109)    | (123)    |                                |                 |
| <b>Total Non-Redeemable Preferred Stock</b>   |                      |                  |        |        | <b>\$ 4,957</b>      | \$ 5,183 | \$ 5,220 |                                |                 |

\* In order of preference for liquidation and dividends.

\*\* The Company's charter permits the board of directors to issue Subordinated Serial Preferred Stock in as many series, each with as many shares and such rights and preferences as the board may designate.

\*\*\* Also convertible into one share of \$1.50 Subordinated Cumulative Preferred Stock.

**Preferred Stock Transactions**

| In thousands | Non-Redeemable Preferred Stock | Non-Redeemable Employees Preferred Stock | Employees Preferred Stock Purchase Accounts | Total Non-Redeemable Preferred Stock |
|--------------|--------------------------------|--|---|--------------------------------------|
|--------------|--------------------------------|--|---|--------------------------------------|

Edgar Filing: GENESCO INC - Form 10-K

|                                 |           |              |           |              |           |              |           |              |
|---------------------------------|-----------|--------------|-----------|--------------|-----------|--------------|-----------|--------------|
| Balance January 31, 2009        | \$        | 3,833        | \$        | 1,502        | \$        | (132)        | \$        | 5,203        |
| Other                           |           | -0-          |           | 8            |           | 9            |           | 17           |
| Balance January 30, 2010        |           | 3,833        |           | 1,510        |           | (123)        |           | 5,220        |
| Other                           |           | (17)         |           | (34)         |           | 14           |           | (37)         |
| Balance January 29, 2011        |           | 3,816        |           | 1,476        |           | (109)        |           | 5,183        |
| Other                           |           | (195)        |           | (39)         |           | 8            |           | (226)        |
| <b>Balance January 28, 2012</b> | <b>\$</b> | <b>3,621</b> | <b>\$</b> | <b>1,437</b> | <b>\$</b> | <b>(101)</b> | <b>\$</b> | <b>4,957</b> |

*Subordinated Serial Preferred Stock (Cumulative):*

Stated and redemption values for Series 1 are \$40 per share and for Series 3 and 4 are each \$100 per share plus accumulated dividends; liquidation value for Series 1 is \$40 per share plus accumulated dividends and for Series 3 and 4 is \$100 per share plus accumulated dividends.

---

**Table of Contents**

**Genesco Inc.**

**and Subsidiaries**

Notes to Consolidated Financial Statements

**Note 8**

**Equity, Continued**

The Company's shareholders' rights plan grants to common shareholders the right to purchase, at a specified exercise price, a fraction of a share of subordinated serial preferred stock, Series 6, in the event of an acquisition of, or an announced tender offer for, 15% or more of the Company's outstanding common stock. Upon any such event, each right also entitles the holder (other than the person making such acquisition or tender offer) to purchase, at the exercise price, shares of common stock having a market value of twice the exercise price. In the event the Company is acquired in a transaction in which the Company is not the surviving corporation, each right would entitle its holder to purchase, at the exercise price, shares of the acquiring company having a market value of twice the exercise price. The rights expire in March 2020, are redeemable under certain circumstances for \$.01 per right and are subject to exchange for one share of common stock or an equivalent amount of preferred stock at any time after the event which makes the rights exercisable and before a majority of the Company's common stock is acquired.

***\$1.50 Subordinated Cumulative Preferred Stock:***

Stated and liquidation values and redemption price are 88 times the average quarterly per share dividend paid on common stock for the previous eight quarters (if any), but in no event less than \$30 per share plus accumulated dividends.

***Employees' Subordinated Convertible Preferred Stock:***

Stated and liquidation values are 88 times the average quarterly per share dividend paid on common stock for the previous eight quarters (if any), but in no event less than \$30 per share.

***Common Stock:***

Common stock-\$1 par value. Authorized: 80,000,000 shares; issued: January 28, 2012 24,757,826 shares; January 29, 2011 24,162,634 shares. There were 488,464 shares held in treasury at January 28, 2012 and January 29, 2011. Each outstanding share is entitled to one vote. At January 28, 2012, common shares were reserved as follows: 102,886 shares for conversion of preferred stock; 394,627 shares for the 1996 Stock Incentive Plan; 92,146 shares for the 2005 Stock Incentive Plan; 1,953,346 shares for the 2009 Amended and Restated Stock Incentive Plan; and 315,901 shares for the Genesco Employee Stock Purchase Plan.

For the year ended January 28, 2012, 390,357 shares of common stock were issued for the exercise of stock options at an average weighted exercise price of \$24.82, for a total of \$9.7 million; 289,407 shares of common stock were issued as restricted shares as part of the 2009 Amended and Restated Equity Incentive Plan; 2,717 shares of common stock were issued for the purchase of shares under the Employee Stock Purchase Plan at an average weighted market price of \$48.95, for a total of \$0.1 million; 14,643 shares were issued to directors for no consideration; 93,089 shares were withheld for taxes on restricted stock vested in Fiscal 2012; 14,081 shares of restricted stock were forfeited in Fiscal 2012; and 5,238 shares were issued in miscellaneous conversions of Series 1, 3, 4 and Employees' Subordinated Convertible Preferred Stock. The 390,357 options exercised were all fixed stock options (see Note 12).

---

**Table of Contents**

**Genesco Inc.**

**and Subsidiaries**

Notes to Consolidated Financial Statements

**Note 8**

**Equity, Continued**

For the year ended January 29, 2011, 118,450 shares of common stock were issued for the exercise of stock options at an average weighted exercise price of \$18.77, for a total of \$2.2 million; 404,995 shares of common stock were issued as restricted shares as part of the 2009 Equity Incentive Plan; 4,230 shares of common stock were issued for the purchase of shares under the Employee Stock Purchase Plan at an average weighted market price of \$28.39, for a total of \$0.1 million; 17,838 shares were issued to directors for no consideration; 81,731 shares were withheld for taxes on restricted stock vested in Fiscal 2011; 1,575 shares of restricted stock were forfeited in Fiscal 2011; and 1,501 shares were issued in miscellaneous conversions of Series 3 and Employees Subordinated Convertible Preferred Stock. The 118,450 options exercised were all fixed stock options (see Note 12). In addition, the Company repurchased and retired 863,767 shares of common stock at an average weighted market price of \$28.74 for a total of \$24.8 million.

For the year ended January 30, 2010, 28,500 shares of common stock were issued for the exercise of stock options at an average weighted exercise price of \$14.04, for a total of \$0.4 million; 383,745 shares of common stock were issued as restricted shares as part of the 2009 Equity Incentive Plan; 4,350 shares of common stock were issued for the purchase of shares under the Employee Stock Purchase Plan at an average weighted market price of \$22.87, for a total of \$0.1 million; 21,204 shares were issued to directors for no consideration; 65,299 shares were withheld for taxes on restricted stock vested in Fiscal 2010; 11,951 shares of restricted stock were forfeited in Fiscal 2010; 4,552,824 shares of common stock were issued in conversions of the Debentures; and 2,341 shares were issued in miscellaneous conversions of Series 1 and Employees Subordinated Convertible Preferred Stock. The 28,500 options exercised were all fixed stock options (see Note 12). In addition, the Company repurchased and retired 85,000 shares of common stock at an average weighted market price of \$23.84 for a total of \$2.0 million.

***Restrictions on Dividends and Redemptions of Capital Stock:***

The Company's charter provides that no dividends may be paid and no shares of capital stock acquired for value if there are dividend or redemption arrearages on any senior or equally ranked stock. Exchanges of subordinated serial preferred stock for common stock or other stock junior to such exchanged stock are permitted.

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.

**Table of Contents**

Genesco Inc.

and Subsidiaries

Notes to Consolidated Financial Statements

Note 8

**Equity, Continued**

Dividends declared for Fiscal 2012 for the Company's Subordinated Serial Preferred Stock, \$2.30 Series 1, \$4.75 Series 3 and \$4.75 Series 4, and the Company's \$1.50 Subordinated Cumulative Preferred Stock were \$0.2 million in the aggregate.

**Changes in the Shares of the Company's Capital Stock**

|  | Common<br>Stock   | Non-<br>Redeemable<br>Preferred<br>Stock | Employees<br>Preferred<br>Stock |
|--|-------------------|--|---------------------------------|
| Issued at January 31, 2009                   | 19,731,979        | 79,460                                   | 50,079                          |
| Exercise of options                          | 28,500            | -0-                                      | -0-                             |
| Issue restricted stock                       | 404,949           | -0-                                      | -0-                             |
| Issue shares Employee Stock Purchase Plan    | 4,350             | -0-                                      | -0-                             |
| Conversion of 4 1/8% Debentures              | 4,552,824         | -0-                                      | -0-                             |
| Shares repurchased                           | (85,000)          | -0-                                      | -0-                             |
| Other  | (74,909)          | 9  | 271                             |
| Issued at January 30, 2010                   | 24,562,693        | 79,469                                   | 50,350                          |
| Exercise of options                          | 118,450           | -0-                                      | -0-                             |
| Issue restricted stock                       | 422,833           | -0-                                      | -0-                             |
| Issue shares Employee Stock Purchase Plan    | 4,230             | -0-                                      | -0-                             |
| Shares repurchased                           | (863,767)         | -0-                                      | -0-                             |
| Other  | (81,805)          | (163)                                    | (1,158)                         |
| Issued at January 29, 2011                   | 24,162,634        | 79,306                                   | 49,192                          |
| Exercise of options                          | 390,357           | -0-                                      | -0-                             |
| Issue restricted stock                       | 304,050           | -0-                                      | -0-                             |
| Issue shares Employee Stock Purchase Plan    | 2,717             | -0-                                      | -0-                             |
| Other  | (101,932)         | (3,831)                                  | (1,270)                         |
| Issued at January 28, 2012                   | 24,757,826        | 75,475                                   | 47,922                          |
| Less shares repurchased and held in treasury | 488,464           | -0-                                      | -0-                             |
| <b>Outstanding at January 28, 2012</b>       | <b>24,269,362</b> | <b>75,475</b>                            | <b>47,922</b>                   |



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

Notes to Consolidated Financial Statements

**Note 9****Income Taxes**

Income tax expense from continuing operations is comprised of the following:

| <b>In thousands</b>                                     | <b>2012</b>      | <b>2011</b> | <b>2010</b> |
|---|------------------|-------------|-------------|
| <b>Current</b>  |                  |             |             |
| U.S. federal  | <b>\$ 42,103</b> | \$ 35,103   | \$ 14,261   |
| International   | <b>2,007</b>     | 1,474       | 1,680       |
| State   | <b>8,952</b>     | 5,703       | 1,781       |
| <b>Total Current Income Tax Expense</b>                 | <b>53,062</b>    | 42,280      | 17,722      |
| <b>Deferred</b>   |                  |             |             |
| U.S. federal  | <b>(175)</b>     | (8,165)     | 4,943       |
| International   | <b>4,370</b>     | -0-         | -0-         |
| State   | <b>(1,463)</b>   | (3,701)     | (1,263)     |
| <b>Total Deferred Income Tax Expense (Benefit)</b>      | <b>2,732</b>     | (11,866)    | 3,680       |
| <b>Total Income Tax Expense - Continuing Operations</b> | <b>\$ 55,794</b> | \$ 30,414   | \$ 21,402   |

Discontinued operations were recorded net of income tax benefit of approximately (\$0.7) million, (\$0.9) million and (\$0.2) million in Fiscal 2012, 2011 and 2010, respectively.

As a result of the exercise of stock options and vesting of restricted stock during Fiscal 2012, 2011 and 2010, the Company realized an additional income tax benefit (expense) of approximately \$4.6 million, \$1.3 million and (\$0.7) million, respectively. These tax benefits (expenses) are reflected as an adjustment to additional paid-in capital.

**Table of Contents**

Genesco Inc.

and Subsidiaries

Notes to Consolidated Financial Statements

Note 9

**Income Taxes, Continued**

Deferred tax assets and liabilities are comprised of the following:

| <b>In thousands</b>                                       | <b>January 28,<br/>2012</b> | January 29,<br>2011  |
|---|-----------------------------|----------------------|
| Identified intangibles                                    | \$ (28,125)                 | \$ (20,392)          |
| Prepays   | (2,814)                     | (2,814)              |
| Convertible bonds   | (3,001)                     | (3,001)              |
| <br>Total deferred tax liabilities                        | <br>(33,940)                | <br>(26,207)         |
| Options   | 1,289                       | 1,999                |
| Deferred rent   | 7,043                       | 8,961                |
| Pensions  | 8,936                       | 4,701                |
| Expense accruals  | 17,146                      | 4,738                |
| Uniform capitalization costs                              | 9,893                       | 9,204                |
| Book over tax depreciation                                | 11,756                      | 12,629               |
| Provisions for discontinued operations and restructurings | 5,201                       | 6,215                |
| Inventory valuation                                       | 2,397                       | 3,232                |
| Tax net operating loss and credit carryforwards           | 8,306                       | 1,581                |
| Allowances for bad debts and notes                        | 1,641                       | 894                  |
| Deferred compensation and restricted stock                | 5,174                       | 5,047                |
| Other   | 5,460                       | 5,172                |
| <br>Gross deferred tax assets                             | <br>84,242                  | <br>64,373           |
| Deferred tax asset valuation allowance                    | (3,790)                     | -0-                  |
| <br>Deferred tax asset net of valuation allowance         | <br>80,452                  | <br>64,373           |
| <br><b>Net Deferred Tax Assets</b>                        | <br><b>\$ 46,512</b>        | <br><b>\$ 38,166</b> |

The deferred tax balances have been classified in the Consolidated Balance Sheets as follows:

|                           | 2012      | 2011      |
|---------------------------|-----------|-----------|
| Net current asset         | \$ 22,541 | \$ 19,130 |
| Net non-current asset     | 28,152    | 19,036    |
| Net non-current liability | (4,181)   | -0-       |

|                                |                  |           |
|--------------------------------|------------------|-----------|
| <b>Net Deferred Tax Assets</b> | <b>\$ 46,512</b> | \$ 38,166 |
|--------------------------------|------------------|-----------|

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

Notes to Consolidated Financial Statements

**Note 9****Income Taxes, Continued**

Reconciliation of the United States federal statutory rate to the Company's effective tax rate from continuing operations is as follows:

|  | <b>2012</b>   | 2011   | 2010   |
|--|---------------|--------|--------|
| U. S. federal statutory rate of tax      | <b>35.00%</b> | 35.00% | 35.00% |
| State taxes (net of federal tax benefit) | <b>3.53</b>   | 2.59   | 1.05   |
| Bond costs                               |               |        | 4.7    |
| Foreign rate differential                | <b>(1.92)</b> |        |        |
| Change in valuation allowance            | <b>.71</b>    |        |        |
| Permanent items                          | <b>2.35</b>   | (.83)  | .75    |
| Other                                    | <b>.53</b>    | (.96)  | .89    |
| <b>Effective Tax Rate</b>                | <b>40.20%</b> | 35.80% | 42.39% |

The provision for income taxes resulted in an effective tax rate for continuing operations of 40.20% for Fiscal 2012, compared with an effective tax rate of 35.80% for Fiscal 2011. The increase in the effective tax rate for Fiscal 2012 was primarily attributable to transaction costs and deferred purchase price related to the Schuh acquisition which are considered permanent differences.

As of January 28, 2012, the Company had a federal net operating loss carryforward, which was assumed in one of the prior year acquisitions, of \$1.6 million which expires in fiscal years 2025 through 2030.

As of January 28, 2012, January 29, 2011 and January 31, 2010, the Company had state net operating loss carryforwards of \$0.1 million, \$0.4 million and \$0.4 million, respectively, which expire in fiscal years 2016 through 2031.

As of January 28, 2012, January 29, 2011 and January 30, 2010, the Company had state tax credits of \$0.6 million, \$0.5 million and \$0.1 million, respectively. These credits expire in fiscal years 2014 through 2019.

As of January 28, 2012, January 29, 2011 and January 30, 2010, the Company had foreign tax credits of \$0.1 million, \$0.3 million and \$0.4 million, respectively. These credits will expire in fiscal year 2022.

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

Notes to Consolidated Financial Statements

**Note 9****Income Taxes, Continued**

As of January 28, 2012, the Company had foreign net operating losses of \$7.2 million, which have no expiration.

As of January 28, 2012, as part of the Schuh acquisition, the Company has provided a valuation allowance of approximately \$3.8 million on deferred tax assets associated primarily with foreign net operating losses and foreign fixed assets for which management has determined it is more likely than not that the deferred tax assets will not be realized. The \$0.9 million net increase in the valuation allowance during Fiscal 2012 from the \$2.9 million provided for on the opening balance sheet determined in accordance with the Income Tax Topic of the Codification relate to foreign net operating losses arising in Fiscal 2012 and increases in fixed asset-related deferred tax assets that will more likely than not never be realized. Management believes that it is more likely than not that the remaining deferred tax assets will be fully realized.

As of January 28, 2012, the Company has not provided for withholding or United States federal income taxes on approximately \$27.1 million of accumulated undistributed earnings of its foreign subsidiaries as they are considered by management to be permanently reinvested. If these undistributed earnings were not considered to be permanently reinvested, the related U.S. tax liability may be reduced by foreign income taxes paid on those earnings. Because of the complexities involved with the hypothetical tax calculation, a determination of the unrecognized deferred tax liability related to these undistributed earnings is not practicable.

The methodology in the Income Tax Topic of the Codification prescribes that a company should use a more-likely-than-not recognition threshold based on the technical merits of the tax position taken. Tax positions that meet the more-likely-than-not recognition threshold should be measured in order to determine the tax benefit to be recognized in the financial statements.

The following is a tabular reconciliation of the total amounts of unrecognized tax benefits for Fiscal 2012, 2011 and 2010.

| <b>In thousands</b>              |                                   | <b>2012</b>      | 2011      | 2010      |
|----------------------------------|-----------------------------------|------------------|-----------|-----------|
| Unrecognized Tax Benefit         | Beginning of Period               | <b>\$ 14,167</b> | \$ 17,004 | \$ 13,456 |
| Gross Increases (Decreases)      | Tax Positions in a Prior Period   | <b>(29)</b>      | (517)     | 4,306     |
| Gross Increases                  | Tax Positions in a Current Period | <b>6,986</b>     | 473       | 327       |
| Settlements                      |                                   | <b>(533)</b>     | (2,605)   | (445)     |
| Lapse of Statutes of Limitations |                                   | <b>(124)</b>     | (188)     | (640)     |
| <b>Unrecognized Tax Benefit</b>  | <b>End of Period</b>              | <b>\$ 20,467</b> | \$ 14,167 | \$ 17,004 |

**Table of Contents**

**Genesco Inc.**

**and Subsidiaries**

Notes to Consolidated Financial Statements

**Note 9**

**Income Taxes, Continued**

Unrecognized tax benefits were approximately \$20.5 million, \$14.2 million and \$17.0 million as of January 28, 2012, January 29, 2011 and January 30, 2010, respectively. The amount of unrecognized tax benefits as of January 28, 2012, January 29, 2011 and January 30, 2010 which would impact the annual effective rate if recognized were \$12.6 million, \$13.1 million and \$13.9 million, respectively. 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.

The Company recognizes interest expense and penalties related to the above unrecognized tax benefits within income tax expense on the Consolidated Statements of Operations. Related to the uncertain tax benefits noted above, the Company recorded interest and penalties of approximately \$0.5 million expense and \$0.0 million, respectively, during Fiscal 2012, (\$0.5) million income and (\$0.2) million income, respectively, during Fiscal 2011 and \$0.8 million expense and (\$0.1) million income, respectively, during Fiscal 2010. The Company recognized a liability for accrued interest and penalties of \$2.3 million and \$0.2 million, respectively, as of January 28, 2012 and \$1.8 million and \$0.2 million, respectively, as of January 29, 2011, included in deferred rent and other long-term liabilities on the Consolidated Balance Sheets.

Income tax reserves are determined using the methodology required by the Income Tax Topic of the Codification.

The Company and its subsidiaries file income tax returns in federal and in many state and local jurisdictions as well as foreign jurisdictions. Primarily as a result of filing amended tax returns, which were generated by the closing of the Internal Revenue Service ( IRS ) examination during Fiscal 2011, the Company is still open to state and local audits dating back to fiscal year ended January 2006. In addition, the Company has subsidiaries in various foreign jurisdictions that have statutes of limitation generally ranging from two to six years.

---

**Table of Contents**

**Genesco Inc.**

**and Subsidiaries**

Notes to Consolidated Financial Statements

**Note 10**

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

**Defined Benefit Pension Plans**

The Company sponsored a non-contributory, defined benefit pension plan. As of January 1, 1996, the Company amended the plan to change the pension benefit formula to a cash balance formula from the then existing benefit calculation based upon years of service and final average pay. The benefits accrued under the old formula were frozen as of December 31, 1995. Upon retirement, the participant will receive this accrued benefit payable as an annuity. In addition, the participant will receive as a lump sum (or annuity if desired) the amount credited to the participant's cash balance account under the new formula. Effective January 1, 2005, the Company froze the defined benefit cash balance plan which prevents any new entrants into the plan as of that date as well as affects the amounts credited to the participants' accounts as discussed below.

Under the cash balance formula, beginning January 1, 1996, the Company credited each participant's account annually with an amount equal to 4% of the participant's compensation plus 4% of the participant's compensation in excess of the Social Security taxable wage base. Beginning December 31, 1996 and annually thereafter, the account balance of each active participant was credited with 7% interest calculated on the sum of the balance as of the beginning of the plan year and 50% of the amounts credited to the account, other than interest, for the plan year. The account balance of each participant who was inactive would be credited with interest at the lesser of 7% or the 30 year Treasury rate. Under the frozen plan, each participant's cash balance plan account will be credited annually only with interest at the 30 year Treasury rate, not to exceed 7%, until the participant retires. The amount credited each year will be based on the rate at the end of the prior year.

**Other Postretirement Benefit Plans**

The Company provides health care benefits for early retirees and life insurance benefits for certain retirees not covered by collective bargaining agreements. Under the health care plan, early retirees are eligible for benefits until age 65. Employees who meet certain requirements are eligible for life insurance benefits upon retirement. The Company accrues such benefits during the period in which the employee renders service.

**Table of Contents**

Genesco Inc.

and Subsidiaries

Notes to Consolidated Financial Statements

**Note 10****Defined Benefit Pension Plans and Other Postretirement Benefit Plans, Continued***Obligations and Funded Status*Change in Benefit Obligation

| <b>In thousands</b>                      | Pension Benefits  |                   | Other Benefits  |                 |
|--|-------------------|-------------------|-----------------|-----------------|
|  | 2012              | 2011              | 2012            | 2011            |
| Benefit obligation at beginning of year  | \$ 110,793        | \$ 109,771        | \$ 3,480        | \$ 3,226        |
| Service cost                             | 250               | 250               | 166             | 144             |
| Interest cost                            | 5,597             | 5,897             | 174             | 170             |
| Plan participants' contributions         | -0-               | -0-               | 71              | 110             |
| Benefits paid                            | (8,805)           | (8,723)           | (242)           | (445)           |
| Actuarial loss                           | 10,809            | 3,598             | 259             | 275             |
| <b>Benefit Obligation at End of Year</b> | <b>\$ 118,644</b> | <b>\$ 110,793</b> | <b>\$ 3,908</b> | <b>\$ 3,480</b> |

Change in Plan Assets

| <b>In thousands</b>                             | Pension Benefits   |                    | Other Benefits    |                   |
|---|--------------------|--------------------|-------------------|-------------------|
|   | 2012               | 2011               | 2012              | 2011              |
| Fair value of plan assets at beginning of year  | \$ 98,887          | \$ 89,369          | \$ -0-            | \$ -0-            |
| Actual gain on plan assets                      | 6,111              | 14,041             | -0-               | -0-               |
| Employer contributions                          | 250                | 4,200              | 171               | 335               |
| Plan participants' contributions                | -0-                | -0-                | 71                | 110               |
| Benefits paid                                   | (8,805)            | (8,723)            | (242)             | (445)             |
| <b>Fair Value of Plan Assets at End of Year</b> | <b>96,443</b>      | <b>98,887</b>      | <b>-0-</b>        | <b>-0-</b>        |
| <b>Funded Status at End of Year</b>             | <b>\$ (22,201)</b> | <b>\$ (11,906)</b> | <b>\$ (3,908)</b> | <b>\$ (3,480)</b> |



**Table of Contents**

Genesco Inc.

and Subsidiaries

Notes to Consolidated Financial Statements

**Note 10****Defined Benefit Pension Plans and Other Postretirement Benefit Plans, Continued**

Amounts recognized in the Consolidated Balance Sheets consist of:

| In thousands                 | Pension Benefits   |                    | Other Benefits    |                   |
|------------------------------|--------------------|--------------------|-------------------|-------------------|
|                              | 2012               | 2011               | 2012              | 2011              |
| Noncurrent assets            | \$ -0-             | \$ -0-             | \$ -0-            | \$ -0-            |
| Current liabilities          | -0-                | -0-                | (160)             | (315)             |
| Noncurrent liabilities       | (22,201)           | (11,906)           | (3,748)           | (3,165)           |
| <b>Net Amount Recognized</b> | <b>\$ (22,201)</b> | <b>\$ (11,906)</b> | <b>\$ (3,908)</b> | <b>\$ (3,480)</b> |

Amounts recognized in accumulated other comprehensive income consist of:

| In thousands  | Pension Benefits |                  | Other Benefits |               |
|---|------------------|------------------|----------------|---------------|
|   | 2012             | 2011             | 2012           | 2011          |
| Prior service cost  | \$ 4             | \$ 8             | \$ -0-         | \$ -0-        |
| Net loss  | 48,906           | 41,129           | 437            | 257           |
| <b>Total Recognized in Accumulated Other Comprehensive Loss</b> | <b>\$ 48,910</b> | <b>\$ 41,137</b> | <b>\$ 437</b>  | <b>\$ 257</b> |

|                                | January 28,<br>2012 | January 29,<br>2011 |
|--------------------------------|---------------------|---------------------|
| Pension Benefits               |                     |                     |
| In thousands                   |                     |                     |
| Projected benefit obligation   | \$ 118,644          | \$ 110,793          |
| Accumulated benefit obligation | 118,644             | 110,793             |
| Fair value of plan assets      | 96,443              | 98,887              |

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

Notes to Consolidated Financial Statements

**Note 10****Defined Benefit Pension Plans and Other Postretirement Benefit Plans, Continued***Components of Net Periodic Benefit Cost*Net Periodic Benefit Cost

| <b>In thousands</b>              | Pension Benefits |                 |               | Other Benefits |               |               |
|----------------------------------|------------------|-----------------|---------------|----------------|---------------|---------------|
|                                  | <b>2012</b>      | 2011            | 2010          | <b>2012</b>    | 2011          | 2010          |
| Service cost                     | \$ 250           | \$ 250          | \$ 250        | \$ 166         | \$ 144        | \$ 120        |
| Interest cost                    | 5,597            | 5,897           | 6,562         | 174            | 170           | 170           |
| Expected return on plan assets   | (7,807)          | (8,089)         | (8,354)       | -0-            | -0-           | -0-           |
| Amortization:                    |                  |                 |               |                |               |               |
| Prior service cost               | 4                | 4               | 4             | -0-            | -0-           | -0-           |
| Losses                           | 4,728            | 4,235           | 1,751         | 79             | 59            | 50            |
| <b>Net amortization</b>          | <b>4,732</b>     | <b>4,239</b>    | <b>1,755</b>  | <b>79</b>      | <b>59</b>     | <b>50</b>     |
| <b>Net Periodic Benefit Cost</b> | <b>\$ 2,772</b>  | <b>\$ 2,297</b> | <b>\$ 213</b> | <b>\$ 419</b>  | <b>\$ 373</b> | <b>\$ 340</b> |

*Reconciliation of Accumulated Other Comprehensive Income*

| <b>In thousands</b>   | Pension Benefits | Other Benefits |
|---|------------------|----------------|
|   | <b>2012</b>      | <b>2012</b>    |
| Net loss (gain)   | \$ 12,505        | \$ (79)        |
| Amortization of prior service cost  | (4)              | -0-            |
| Amortization of net actuarial (loss) gain   | (4,728)          | 259            |
| <b>Total Recognized in Other Comprehensive Income</b>                               | <b>\$ 7,773</b>  | <b>\$ 180</b>  |
| <b>Total Recognized in Net Periodic Benefit Cost and Other Comprehensive Income</b> | <b>\$ 10,545</b> | <b>\$ 599</b>  |

The estimated net loss and prior service cost for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are \$6.4 million and \$4,000, respectively. The estimated net loss for the other postretirement benefit plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is \$0.1 million.



**Table of Contents**

Genesco Inc.

and Subsidiaries

Notes to Consolidated Financial Statements

**Note 10****Defined Benefit Pension Plans and Other Postretirement Benefit Plans, Continued***Weighted-average assumptions used to determine benefit obligations*

|                               | Pension Benefits |       | Other Benefits |       |
|-------------------------------|------------------|-------|----------------|-------|
|                               | 2012             | 2011  | 2012           | 2011  |
| Discount rate                 | 4.35%            | 5.25% | 4.17%          | 5.25% |
| Rate of compensation increase | NA               | NA    |                |       |

For Fiscal 2012 and 2011, the discount rate was based on a yield curve of high quality corporate bonds with cash flows matching the Company's plans' expected benefit payments.

*Weighted-average assumptions used to determine net periodic benefit costs*

|  | Pension Benefits |        |        | Other Benefits |       |        |
|--|------------------|--------|--------|----------------|-------|--------|
|  | 2012             | 2011   | 2010   | 2012           | 2011  | 2010   |
| Discount rate                                    | 5.25%            | 5.625% | 6.875% | 5.25%          | 5.50% | 6.375% |
| Expected long-term rate of return on plan assets | 8.25%            | 8.25%  | 8.25%  |                |       |        |
| Rate of compensation increase                    | NA               | NA     | NA     |                |       |        |

The weighted average discount rate used to measure the benefit obligation for the pension plan decreased from 5.25% to 4.35% from Fiscal 2011 to Fiscal 2012. The decrease in the rate increased the accumulated benefit obligation by \$10.4 million and increased the projected benefit obligation by \$10.4 million. The weighted average discount rate used to measure the benefit obligation for the pension plan decreased from 5.625% to 5.25% from Fiscal 2010 to Fiscal 2011. The decrease in the rate increased the accumulated benefit obligation by \$4.1 million and increased the projected benefit obligation by \$4.1 million.

To develop the expected long-term rate of return on assets assumption, the Company considered historical asset returns, the current asset allocation and future expectations. Considering this information, the Company selected an 8.25% long-term rate of return on assets assumption.

*Assumed health care cost trend rates*

|   | 2012 | 2011 |
|---|------|------|
| Health care cost trend rate assumed for next year                                 | 7.5% | 8%   |
| Rate to which the cost trend rate is assumed to decline (the ultimate trend rate) | 5%   | 5%   |
| Year that the rate reaches the ultimate trend rate                                | 2017 | 2017 |

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

Notes to Consolidated Financial Statements

**Note 10****Defined Benefit Pension Plans and Other Postretirement Benefit Plans, Continued**

The effect on disclosed information of one percentage point change in the assumed health care cost trend rate for each future year is shown below.

| <b>(In thousands)</b>                         | 1% Increase<br>in Rates | 1% Decrease<br>in Rates |
|---|-------------------------|-------------------------|
| Aggregated service and interest cost          | \$ 59                   | \$ 48                   |
| Accumulated postretirement benefit obligation | \$ 616                  | \$ 502                  |

***Plan Assets***

The Company's pension plan weighted average asset allocations as of January 28, 2012 and January 29, 2011, by asset category are as follows:

| <b>Asset Category</b> | Plan Assets                 |                     |
|-----------------------|-----------------------------|---------------------|
|                       | <b>January 28,<br/>2012</b> | January 29,<br>2011 |
| Equity securities     | <b>63%</b>                  | 66%                 |
| Debt securities       | <b>37%</b>                  | 33%                 |
| Other                 | <b>0%</b>                   | 1%                  |
| <b>Total</b>          | <b>100%</b>                 | 100%                |

The investment strategy of the Trust is to ensure over the long-term an asset pool, that when combined with company contributions, will support benefit obligations to participants, retirees and beneficiaries. Investment management responsibilities of plan assets are delegated to outside investment advisers and overseen by an Investment Committee comprised of members of the Company's senior management that is appointed by the Board of Directors. The Company has an investment policy that provides direction on the implementation of this strategy.

The investment policy establishes a target allocation for each asset class and investment manager. The actual asset allocation versus the established target is reviewed at least quarterly and is maintained within a +/- 5% range of the target asset allocation. Target allocations are 50% domestic equity, 13% international equity, 35% fixed income and 2% cash investments.

All investments are made solely in the interest of the participants and beneficiaries for the exclusive purposes of providing benefits to such participants and their beneficiaries and defraying the expenses related to administering the Trust as determined by the Investment Committee. All assets shall be properly diversified to reduce the potential of a single security or single sector of securities having a disproportionate impact on the portfolio.



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

Notes to Consolidated Financial Statements

**Note 10****Defined Benefit Pension Plans and Other Postretirement Benefit Plans, Continued**

The Committee utilizes an outside investment consultant and a team of investment managers to implement its various investment strategies. Performance of the managers is reviewed quarterly and the investment objectives are consistently evaluated.

At January 28, 2012 and January 29, 2011, there were no Company related assets in the plan.

Generally, quoted market prices are used to value pension plan assets. Equities, some fixed income securities, publicly traded investment funds and U.S. government obligations are valued at the closing price reported on the active market on which the individual security is traded.

The following table presents the pension plan assets by level within the fair value hierarchy as of January 28, 2012.

| (In thousands)                            | Level 1          | Level 2 | Level 3 | Total            |
|---|------------------|---------|---------|------------------|
| <b>Equity Securities:</b>                 |                  |         |         |                  |
| Europacific Growth Fund                   | \$ 11,754        |         |         | \$ 11,754        |
| Harbor Capital Appreciation Fund          | 12,129           |         |         | 12,129           |
| Harbor Small Cap Growth Fund              | 6,279            |         |         | 6,279            |
| Munder Veracity Small Cap Value Fund      | 6,574            |         |         | 6,574            |
| Vanguard Inst Index Fund                  | 11,946           |         |         | 11,946           |
| Vanguard Russell 1000 Value Index Fund    | 12,393           |         |         | 12,393           |
| <b>Debt Securities:</b>                   |                  |         |         |                  |
| <b>Pimco Long Duration</b>                |                  |         |         |                  |
| Total Return Fund                         | 15,845           |         |         | 15,845           |
| Pimco Total Return Fund                   | 19,319           |         |         | 19,319           |
| <b>Other:</b>                             |                  |         |         |                  |
| Cash Equivalents                          | 267              |         |         | 267              |
| Other (includes receivables and payables) | (63)             |         |         | (63)             |
| <b>Total Pension Plan Assets</b>          | <b>\$ 96,443</b> |         |         | <b>\$ 96,443</b> |

***Cash Flows*****Return of Assets**

There was no return of assets from the plan to the Company in Fiscal year 2012 and no plan assets are projected to be returned to the Company in Fiscal 2013.

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

Notes to Consolidated Financial Statements

**Note 10****Defined Benefit Pension Plans and Other Postretirement Benefit Plans, Continued****Contributions**

There was no ERISA cash requirement for the plan in 2011 and none is projected to be required in 2012. It is the Company's policy to contribute enough cash to maintain at least an 80% funding level.

**Estimated Future Benefit Payments**

Expected benefit payments from the trust, including future service and pay, are as follows:

| Estimated future payments | Pension<br>Benefits<br>(\$ in millions) | Other<br>benefits<br>(\$ in millions) |
|---------------------------|---|---------------------------------------|
| 2012                      | \$ 8.6                                  | \$ 0.2                                |
| 2013                      | 8.5                                     | 0.2                                   |
| 2014                      | 8.5                                     | 0.2                                   |
| 2015                      | 8.4                                     | 0.2                                   |
| 2016                      | 8.2                                     | 0.2                                   |
| 2017 - 2021               | 38.8                                    | 1.2                                   |

**Section 401(k) Savings Plan**

The Company has a Section 401(k) Savings Plan available to employees who have completed one full year of service and are age 21 or older.

Concurrent with the January 1, 1996 amendment to the pension plan (discussed previously), the Company amended the 401(k) savings plan to make matching contributions equal to 50% of each employee's contribution of up to 5% of salary. Concurrent with freezing the defined benefit pension plan effective January 1, 2005, the Company amended the 401(k) savings plan to change the formula for matching contributions. Since January 1, 2005, the Company has matched 100% of each employee's contribution of up to 3% of salary and 50% of the next 2% of salary. In addition, for those employees hired before December 31, 2004, who were eligible for the Company's cash balance retirement plan before it was frozen, the Company annually makes an additional contribution of 2 1/2 % of salary to each employee's account. In calendar 2005 and future years, participants are immediately vested in their contributions and the Company's matching contribution plus actual earnings thereon. The contribution expense to the Company for the matching program was approximately \$4.2 million for Fiscal 2012, \$3.8 million for Fiscal 2011 and \$3.2 million for Fiscal 2010.



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

Notes to Consolidated Financial Statements

**Note 11****Earnings Per Share**

| (In thousands, except per share amounts)                         | For the Year Ended<br>January 28, 2012 |                         |                     | For the Year Ended<br>January 29, 2011 |                         |                     | For the Year Ended<br>January 30, 2010 |                         |                     |
|--|--|-------------------------|---------------------|--|-------------------------|---------------------|--|-------------------------|---------------------|
|  | Income<br>(Numerator)                  | Shares<br>(Denominator) | Per-Share<br>Amount | Income<br>(Numerator)                  | Shares<br>(Denominator) | Per-Share<br>Amount | Income<br>(Numerator)                  | Shares<br>(Denominator) | Per-Share<br>Amount |
| Earnings from continuing operations                              | \$ 82,984                              |                         |                     | \$ 54,547                              |                         |                     | \$ 29,086                              |                         |                     |
| Less: Preferred stock dividends                                  | (193)                                  |                         |                     | (197)                                  |                         |                     | (198)                                  |                         |                     |
| <b>Basic EPS</b>   |  |                         |                     |  |                         |                     |  |                         |                     |
| Income available to common shareholders                          | 82,791                                 | 23,234                  | \$ 3.56             | 54,350                                 | 23,209                  | \$ 2.34             | 28,888                                 | 21,471                  | \$ 1.35             |
| <b>Effect of Dilutive Securities</b>                             |  |                         |                     |  |                         |                     |  |                         |                     |
| Options and restricted stock                                     |  | 511                     |                     |  | 431                     |                     |  | 210                     |                     |
| Convertible preferred stock <sup>(1)</sup>                       | 141                                    | 55                      |                     | 58                                     | 26                      |                     | -0-                                    | -0-                     |                     |
| 4 1/8% Convertible Subordinated Debentures <sup>(2)</sup>        | -0-                                    | -0-                     |                     | -0-                                    | -0-                     |                     | 1,911                                  | 1,768                   |                     |
| Employees preferred stock <sup>(3)</sup>                         |  | 48                      |                     |  | 50                      |                     |  | 51                      |                     |
| <b>Diluted EPS</b>   |  |                         |                     |  |                         |                     |  |                         |                     |
| Income available to common shareholders plus assumed conversions | \$ 82,932                              | 23,848                  | \$ 3.48             | \$ 54,408                              | 23,716                  | \$ 2.29             | \$ 30,799                              | 23,500                  | \$ 1.31             |

- (1) The amount of the dividend on the convertible preferred stock per common share obtainable on conversion of the convertible preferred stock was less than basic earnings per share for Series 1, 3 and 4 preferred stocks for Fiscal 2012. Therefore, conversion of these convertible preferred stocks were included in diluted earnings per share for Fiscal 2012. The amount of the dividend on Series 3 convertible preferred stock per common share obtainable on conversion of the convertible preferred stock was less than basic earnings for Fiscal 2011. Therefore, conversion of Series 3 preferred shares were included in diluted earnings per share for Fiscal 2011. The amount of the dividend on Series 1 and Series 4 convertible preferred stock per common share obtainable on conversion of the preferred stock was higher than basic earnings for Fiscal 2011. Therefore, conversion of Series 1 and Series 4 preferred shares were not reflected in diluted earnings per share for Fiscal 2011 because it would have been antidilutive. The amount of the dividend on the convertible preferred stock per common share obtainable on conversion of the convertible preferred stock is higher than basic earnings per share for Series 1, Series 3

## Edgar Filing: GENESCO INC - Form 10-K

and Series 4 for Fiscal 2010. Therefore, conversion of Series 1, Series 3 and Series 4 convertible preferred stock is not reflected in diluted earnings per share for Fiscal 2010, because it would have been antidilutive. The shares convertible to common stock for Series 1, 3 and 4 preferred stock would have been 25,306 and 24,512 and 5,147, respectively, as of January 28, 2012.

- (2) The Company converted the 4 1/8% Convertible Subordinated Debentures to common stock during Fiscal 2010, therefore the convertible debentures are not reflected in diluted earnings per share for Fiscal 2012 or 2011.
- (3) 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 Subsidiaries**

Notes to Consolidated Financial Statements

**Note 11**

**Earnings Per Share. Continued**

All outstanding options to purchase shares of common stock at the end of Fiscal 2012 were included in the computation of diluted earnings per share because the options' exercise prices were less than the average market price of the common shares.

Options to purchase 12,000 shares of common stock at \$32.65 per share, 71,428 shares of common stock at \$36.40 per share, 1,945 shares of common stock at \$40.05 per share, 103,474 shares of common stock at \$38.14 per share, 951 shares of common stock at \$37.41 per share and 2,351 shares of common stock at \$42.82 per share were outstanding at the end of Fiscal 2011 but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares.

Options to purchase 12,000 shares of common stock at \$32.65 per share, 12,000 shares of common stock at \$23.97 per share, 60,752 shares of common stock at \$23.54 per share, 325,982 shares of common stock at \$24.90 per share, 71,428 shares of common stock at \$36.40 per share, 1,945 shares of common stock at \$40.05 per share, 103,474 shares of common stock at \$38.14 per share, 951 shares of common stock at \$37.41 per share and 2,351 shares of common stock at \$42.82 per share were outstanding at the end of Fiscal 2010 but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares.

The weighted shares outstanding reflects the effect of stock buy back programs. The Company repurchased 85,000 shares at a cost of \$2.0 million during Fiscal 2010, which was not paid at the end of Fiscal 2010 but included in other accrued liabilities on the Consolidated Balance Sheets. During the first quarter of Fiscal 2011, the board increased the total repurchase authorization under its common stock repurchase plan to \$35.0 million. The board restored the total repurchase authorization in the third quarter of Fiscal 2011 to \$35.0 million. The Company repurchased 863,767 shares at a cost of \$24.8 million during Fiscal 2011. All of the \$24.8 million in repurchases for Fiscal 2011, except \$0.6 million, were repurchased under the original \$35.0 million authorization made during the first quarter of Fiscal 2011. The Company did not repurchase any shares during Fiscal 2012.

**Table of Contents**

**Genesco Inc.**

**and Subsidiaries**

Notes to Consolidated Financial Statements

**Note 12**

**Share-Based Compensation Plans**

The Company's stock-based compensation plans, as of January 28, 2012, are described below. 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.

***Stock Incentive Plans***

The Company has two fixed stock incentive plans. Under the 2009 Amended and Restated Equity Incentive Plan (the 2009 Plan), effective as of June 22, 2011, the Company may grant options, restricted shares, performance awards and other stock-based awards to its employees, consultants and directors for up to 2.5 million shares of common stock. Under the 2005 Equity Incentive Plan (the 2005 Plan), effective as of June 23, 2005, the Company may grant options, restricted shares and other stock-based awards to its employees and consultants as well as directors for up to 2.5 million shares of common stock. There will be no future awards under the 2005 Equity Incentive Plan. Under both plans, the exercise price of each option equals the market price of the Company's stock on the date of grant and an option's maximum term is 10 years. Options granted under both plans vest 25% per year over four years.

For Fiscal 2012, 2011 and 2010, the Company recognized share-based compensation cost of less than \$1,000, \$0.2 million and \$0.4 million, respectively, for its fixed stock incentive plans included in selling and administrative expenses in the accompanying Consolidated Statements of Operations. The Company did not capitalize any share-based compensation cost.

The Compensation Stock Compensation Topic of the Codification requires that the cash flows resulting from tax benefits for tax deductions in excess of the compensation cost recognized for those options (excess tax benefit) be classified as financing cash flows. Accordingly, the Company classified excess tax benefits of \$4.7 million, \$1.4 and \$0.0 million as financing cash inflows rather than as operating cash inflows on its Consolidated Statement of Cash Flows for Fiscal 2012, 2011 and 2010, respectively.

The Company did not grant any shares of fixed stock options in Fiscal 2012, 2011 or 2010.

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

Notes to Consolidated Financial Statements

**Note 12****Share-Based Compensation Plans, Continued**

A summary of fixed stock option activity and changes for Fiscal 2012, 2011 and 2010 is presented below:

|                                      | Shares           | Weighted-Average<br>Exercise Price | Weighted-Average<br>Remaining<br>Contractual Term | Aggregate Intrinsic<br>Value (in<br>thousands) <sup>(1)</sup> |
|--------------------------------------|------------------|------------------------------------|---|---|
| Outstanding, January 31, 2009        | 1,043,759        | \$ 23.90                           |   |   |
| Granted                              | -0-              |                                    |   |   |
| Exercised                            | (28,500)         | 14.04                              |   |   |
| Forfeited                            | (19,679)         | 31.16                              |   |   |
| Outstanding, January 30, 2010        | 995,580          | \$ 24.04                           |   |   |
| Granted                              | -0-              |                                    |   |   |
| Exercised                            | (118,450)        | 18.77                              |   |   |
| Forfeited                            | -0-              |                                    |   |   |
| Outstanding, January 29, 2011        | 877,130          | \$ 24.75                           |   |   |
| <b>Granted</b>                       | <b>-0-</b>       |                                    |   |   |
| <b>Exercised</b>                     | <b>(390,357)</b> | <b>24.82</b>                       |   |   |
| <b>Forfeited</b>                     | <b>-0-</b>       |                                    |   |   |
| <b>Outstanding, January 28, 2012</b> | <b>486,773</b>   | <b>\$ 24.70</b>                    | <b>2.51</b>                                       | <b>\$ 17,965</b>  |
| <b>Exercisable, January 28, 2012</b> | <b>486,773</b>   | <b>\$ 24.70</b>                    | <b>2.51</b>                                       | <b>\$ 17,965</b>  |

(1) Based upon the difference between the closing market price of the Company's common stock on the last trading day of the year and the grant price of in-the-money options.

The total intrinsic value, which represents the difference between the underlying stock's market price and the option's exercise price, of options exercised during Fiscal 2012, 2011 and 2010 was \$10.3 million, \$2.3 million and \$0.4 million, respectively.

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

Notes to Consolidated Financial Statements

**Note 12****Share-Based Compensation Plans, Continued**

A summary of the status of the Company's nonvested shares of its fixed stock incentive plans as of January 28, 2012, is presented below:

|                                      | Shares     | Weighted-Average<br>Grant-Date<br>Fair Value |
|--------------------------------------|------------|--|
| Nonvested Fixed Stock Options        |            |  |
| Nonvested at January 29, 2011        | 587        | \$ 16.28                                     |
| Granted                              | -0-        |  |
| Vested                               | (587)      | 16.28  |
| Forfeited                            | -0-        |  |
| <b>Nonvested at January 28, 2012</b> | <b>-0-</b> | <b>\$ 0.00</b>                               |

As of January 28, 2012 there was no unrecognized compensation costs related to nonvested share-based compensation arrangements granted under the stock incentive plans discussed above.

Cash received from option exercises under all share-based payment arrangements for Fiscal 2012, 2011 and 2010 was \$9.7 million, \$2.2 million and \$0.4 million, respectively.

***Restricted Stock Incentive Plans*****Director Restricted Stock**

The 2009 and 2005 Plans permit the board of directors to grant restricted stock to non-employee directors on the date of the annual meeting of shareholders at which an outside director is first elected ( New Director Grants ). The outside director restricted stock so granted is to vest with respect to one-third of the shares each year as long as the director is still serving as a director. Once the shares have vested, the director is restricted from selling, transferring, pledging or assigning the shares for an additional two years. There were no shares issued in New Director Grants in Fiscal 2012, 2011 and 2010.

**Table of Contents**

**Genesco Inc.**

**and Subsidiaries**

Notes to Consolidated Financial Statements

**Note 12**

**Share-Based Compensation Plans, Continued**

In addition, the 2009 and 2005 Plans permit an outside director to elect irrevocably to receive all or a specified portion of his annual retainers for board membership and any committee chairmanship for the following fiscal year in a number of shares of restricted stock (the Retainer Stock ). Shares of the Retainer Stock are granted as of the first business day of the fiscal year as to which the election is effective, subject to forfeiture to the extent not earned upon the outside director's ceasing to serve as a director or committee chairman during such fiscal year. Once the shares are earned, the director is restricted from selling, transferring, pledging or assigning the shares for an additional three years. There were no retainer shares issued in Fiscal 2012, 2011 or 2010.

Also pursuant to the 2005 Plan, annually on the date of the annual meeting of shareholders, beginning in Fiscal 2007, each outside director received restricted stock valued at \$60,000 based on the average of stock prices for the first five days in the month of the annual meeting of shareholders. The outside director restricted stock vests with respect to one-third of the shares each year as long as the director is still serving as a director. Once the shares vest, the director is restricted from selling, transferring, pledging or assigning the shares for an additional two years. Under the 2009 Plan, director stock awards were made during Fiscal 2012, 2011 and 2010 on substantially the same terms as grants under the 2005 Plan except for Fiscal 2012, the restricted stock was valued at \$70,000 and the vesting period was changed to one year. For Fiscal 2012, 2011 and 2010, the Company issued 14,643 shares, 17,838 shares and 21,204 shares, respectively, of director restricted stock.

For Fiscal 2012, 2011 and 2010, the Company recognized \$0.8 million, \$0.5 million and \$0.4 million, respectively, of director restricted stock related share-based compensation in selling and administrative expenses in the accompanying Consolidated Statements of Operations.

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

Notes to Consolidated Financial Statements

**Note 12****Share-Based Compensation Plans, Continued****Employee Restricted Stock**

Under the 2009 Plan, the Company issued 289,407 shares, 404,995 shares and 383,745 shares of employee restricted stock in Fiscal 2012, 2011 and 2010, respectively. Of the 383,745 shares issued in Fiscal 2010, 359,096 shares and the shares issued in Fiscal 2011 and 2012 vest 25% per year over four years, provided that on such date the grantee has remained continuously employed by the Company since the date of grant. The additional 24,649 shares issued in Fiscal 2010 vest one-third per year over three years. The fair value of employee restricted stock is charged against income as compensation cost over the vesting period. Compensation cost recognized in selling and administrative expenses in the accompanying Consolidated Statements of Operations for these shares was \$6.9 million, \$7.3 million and \$6.2 million for Fiscal 2012, 2011 and 2010, respectively. A summary of the status of the Company's nonvested shares of its employee restricted stock as of January 28, 2012 is presented below:

|                                   | Shares           | Weighted-Average<br>Grant-Date<br>Fair Value |
|-----------------------------------|------------------|--|
| Nonvested Restricted Shares       |                  |  |
| Nonvested at January 31, 2009     | 508,333          | \$ 24.60                                     |
| Granted                           | 383,745          | 19.25  |
| Vested                            | (138,714)        | 26.70  |
| Withheld for federal taxes        | (65,299)         | 26.32  |
| Forfeited                         | (11,951)         | 25.97  |
| Nonvested at January 30, 2010     | 676,114          | 20.94  |
| Granted                           | 404,995          | 28.41  |
| Vested                            | (179,684)        | 23.09  |
| Withheld for federal taxes        | (81,731)         | 23.15  |
| Forfeited                         | (1,575)          | 19.40  |
| Nonvested at January 29, 2011     | 818,119          | 23.95  |
| <b>Granted</b>                    | <b>289,407</b>   | <b>45.14</b>                                 |
| <b>Vested</b>                     | <b>(227,691)</b> | <b>22.58</b>                                 |
| <b>Withheld for federal taxes</b> | <b>(93,089)</b>  | <b>22.42</b>                                 |
| <b>Forfeited</b>                  | <b>(14,081)</b>  | <b>27.38</b>                                 |
| Nonvested at January 28, 2012     | 772,665          | \$ 32.41                                     |





**Table of Contents**

**Genesco Inc.**

**and Subsidiaries**

Notes to Consolidated Financial Statements

**Note 12**

**Share-Based Compensation Plans, Continued**

As of January 28, 2012 there was \$20.2 million of total unrecognized compensation costs related to nonvested share-based compensation arrangements for restricted stock discussed above. That cost is expected to be recognized over a weighted average period of 1.87 years.

***Employee Stock Purchase Plan***

Under the Employee Stock Purchase Plan, the Company is authorized to issue up to 1.0 million shares of common stock to qualifying full-time employees whose total annual base salary is less than \$90,000, effective October 1, 2002. Prior to October 1, 2002, the total annual base salary was limited to \$100,000. Under the terms of the Plan, employees could choose each year to have up to 15% of their annual base earnings or \$8,500, whichever is lower, withheld to purchase the Company's common stock. The purchase price of the stock was 85% of the closing market price of the stock on either the exercise date or the grant date, whichever was less. The Company's board of directors amended the Company's Employee Stock Purchase Plan effective October 1, 2005 to provide that participants may acquire shares under the Plan at a 5% discount from fair market value on the last day of the Plan year. Employees can choose each year to have up to 15% of their annual base earnings or \$9,500, whichever is lower, withheld to purchase the Company's common stock. Under the Compensation Stock Compensation Topic of the Codification, shares issued under the Plan as amended are non-compensatory. Under the Plan, the Company sold 2,717 shares, 4,230 shares and 4,350 shares to employees in Fiscal 2012, 2011 and 2010, respectively.

***Stock Purchase Plans***

Stock purchase accounts arising out of sales to employees prior to 1972 under certain employee stock purchase plans amounted to \$101,000 and \$109,000 at January 28, 2012 and January 29, 2011, respectively, and were secured at January 28, 2012, by 5,625 employees' preferred shares. Payments on stock purchase accounts under the stock purchase plans have been indefinitely deferred. No further sales under these plans are contemplated.

**Table of Contents**

**Genesco Inc.**

**and Subsidiaries**

Notes to Consolidated Financial Statements

**Note 13**

**Legal Proceedings**

**Environmental Matters**

*New York State Environmental Matters*

In August 1997, the New York State Department of Environmental Conservation ( NYSDEC ) and the Company entered into a consent order whereby the Company assumed responsibility for conducting a remedial investigation and feasibility study ( RIFS ) and implementing an interim remedial measure ( IRM ) with regard to the site of a knitting mill operated by a former subsidiary of the Company from 1965 to 1969. The Company undertook the IRM and RIFS voluntarily, without admitting liability or accepting responsibility for any future remediation of the site. The Company has completed the IRM and the RIFS. In the course of preparing the RIFS, the Company identified remedial alternatives with estimated undiscounted costs ranging from \$-0- to \$24.0 million, excluding amounts previously expended or provided for by the Company. The United States Environmental Protection Agency ( EPA ), which has assumed primary regulatory responsibility for the site from NYSDEC, issued a Record of Decision in September 2007. The Record of Decision requires a remedy of a combination of groundwater extraction and treatment and in-site chemical oxidation at an estimated 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.

---

**Table of Contents**

**Genesco Inc.**

**and Subsidiaries**

Notes to Consolidated Financial Statements

**Note 13**

**Legal Proceedings, Continued**

The Village of Garden City, New York, has asserted that the Company is liable for the costs associated with enhanced treatment required by the impact of the groundwater plume from the site on two public water supply wells, including historical costs ranging from approximately \$1.8 million to in excess of \$2.5 million, and future operation and maintenance costs which the Village estimates at \$126,400 annually while the enhanced treatment continues. On December 14, 2007, the Village filed a complaint against the Company and the owner of the property under the Resource Conservation and Recovery Act ( RCRA ), the Safe Drinking Water Act, and the Comprehensive Environmental Response, Compensation and Liability Act ( CERCLA ) as well as a number of state law theories in the U.S. District Court for the Eastern District of New York, seeking an injunction requiring the defendants to remediate contamination from the site and to establish their liability for future costs that may be incurred in connection with it, which the complaint alleges could exceed \$41 million over a 70-year period. The Company has not verified the estimates of either historic or future costs asserted by the Village, but believes that an estimate of future costs based on a 70-year remediation period is unreasonable given the expected remedial period reflected in the EPA's Record of Decision. On May 23, 2008, the Company filed a motion to dismiss the Village's complaint on grounds including applicable statutes of limitation and preemption of certain claims by the NYSDEC's and the EPA's diligent prosecution of remediation. On January 27, 2009, the Court granted the motion to dismiss all counts of the plaintiff's complaint except for the CERCLA claim and a state law claim for indemnity for costs incurred after November 27, 2000. On September 23, 2009, on a motion for reconsideration by the Village, the Court reinstated the claims for injunctive relief under RCRA and for equitable relief under certain of the state law theories. The Company intends to continue to defend the action.

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

*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.

---

**Table of Contents**

**Genesco Inc.**

**and Subsidiaries**

Notes to Consolidated Financial Statements

**Note 13**

**Legal Proceedings, Continued**

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 \$13.0 million as of January 28, 2012, \$15.5 million as of January 29, 2011 and \$15.9 million as of January 30, 2010. All such provisions reflect the Company's estimates of the most likely cost (undiscounted, including both current and noncurrent portions) of resolving the contingencies, based on facts and circumstances as of the time they were made. There is no assurance that relevant facts and circumstances will not change, necessitating future changes to the provisions. Such contingent liabilities are included in the liability arising from provision for discontinued operations on the accompanying Consolidated Balance Sheets. The Company has made pretax accruals for certain of these contingencies, including approximately \$1.8 million reflected in Fiscal 2012, \$2.9 million in Fiscal 2011 and \$0.8 million in Fiscal 2010. These charges are included in provision for discontinued operations, net in the Consolidated Statements of Operations.

**California Actions**

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 in principle to settle both actions, subject to documentation and court approval. The Company expects that the proposed settlement will not have a material effect on its financial condition or results of operations.

On June 22, 2011, the Company removed to the U.S. District Court for the Eastern District of California *Overton v. Hat World, Inc.*, a putative class action against its subsidiary, Hat World, Inc., alleging various violations of the California Labor Code, including failure to comply with certain itemized wage statement requirements, failure to reimburse expenses, forced patronization, and failure to provide adequate seats to employees. The Company and plaintiff's counsel have reached an agreement in principle to settle the action, subject to definitive documentation and court approval. The Company expects that the proposed settlement will not have a material effect on its financial condition or results of operations.

---

**Table of Contents**

**Genesco Inc.**

**and Subsidiaries**

Notes to Consolidated Financial Statements

**Note 13**

**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. 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 additional claims, if any, 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 intends to defend the matter.

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

**Note 14**

**Business Segment Information**

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

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

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

Notes to Consolidated Financial Statements

**Note 14****Business Segment Information, Continued**

The Company's reportable segments are based on the way management organizes the segments in order to make operating decisions and assess performance along types of products sold. Journeys Group, Underground Station Group, 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.

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

| Fiscal 2012  | Underground       |                  | Lids              |                   | Johnston<br>&     |                    | Corporate<br>& Other |                     | Consolidated |
|--|-------------------|------------------|-------------------|-------------------|-------------------|--------------------|----------------------|---------------------|--------------|
| In thousands   | Journeys<br>Group | Station<br>Group | Schuh<br>Group    | Sports<br>Group   | Murphy<br>Group   | Licensed<br>Brands | Corporate<br>& Other |                     |              |
| Sales  | \$ 927,743        | \$ 92,373        | \$ 212,262        | \$ 759,671        | \$ 201,725        | \$ 97,721          | \$ 1,116             | \$ 2,292,611        |              |
| Intercompany sales   | -0-               | -0-              | -0-               | (347)             | -0-               | (277)              | -0-                  | (624)               |              |
| <b>Net sales to external customers</b>                         | <b>\$ 927,743</b> | <b>\$ 92,373</b> | <b>\$ 212,262</b> | <b>\$ 759,324</b> | <b>\$ 201,725</b> | <b>\$ 97,444</b>   | <b>\$ 1,116</b>      | <b>\$ 2,291,987</b> |              |
| Segment operating income (loss)                                | \$ 82,785         | \$ (333)         | \$ 11,711         | \$ 82,349         | \$ 13,682         | \$ 9,456           | \$ (53,103)          | \$ 146,547          |              |
| Restructuring and other*                                       | -0-               | -0-              | -0-               | -0-               | -0-               | -0-                | (2,677)              | (2,677)             |              |
| <b>Earnings from operations</b>                                | <b>82,785</b>     | <b>(333)</b>     | <b>11,711</b>     | <b>82,349</b>     | <b>13,682</b>     | <b>9,456</b>       | <b>(55,780)</b>      | <b>143,870</b>      |              |
| Interest expense   | -0-               | -0-              | -0-               | -0-               | -0-               | -0-                | (5,157)              | (5,157)             |              |
| Interest income  | -0-               | -0-              | -0-               | -0-               | -0-               | -0-                | 65                   | 65                  |              |
| <b>Earnings from continuing operations before income taxes</b> | <b>\$ 82,785</b>  | <b>\$ (333)</b>  | <b>\$ 11,711</b>  | <b>\$ 82,349</b>  | <b>\$ 13,682</b>  | <b>\$ 9,456</b>    | <b>\$ (60,872)</b>   | <b>\$ 138,778</b>   |              |
| Total assets**   | \$ 234,129        | \$ 25,202        | \$ 205,313        | \$ 489,512        | \$ 79,321         | \$ 34,974          | \$ 168,814           | \$ 1,237,265        |              |
| Depreciation and amortization                                  | 18,965            | 1,777            | 4,602             | 22,541            | 3,538             | 285                | 2,029                | 53,737              |              |
| Capital expenditures   | 10,885            | 240              | 7,406             | 24,497            | 1,894             | 718                | 3,816                | 49,456              |              |

\* Restructuring and other includes a \$1.1 million charge for asset impairments, of which \$0.5 million is in the Journeys Group, \$0.3 million in the Lids Sports Group, \$0.2 million in the Johnston & Murphy Group and \$0.1 million in the Underground Station Group.

## Edgar Filing: GENESCO INC - Form 10-K

\*\* Total assets for the Lids Sports Group, Schuh Group and Licensed Brands include \$159.1 million, \$99.9 million and \$0.8 million of goodwill, respectively. Goodwill for Lids Sports Group includes \$6.5 million of additions in Fiscal 2012 resulting from small acquisitions and the Schuh Group goodwill is due to the acquisition of Schuh in the second quarter of Fiscal 2012 of \$102.9 million which has been decreased by \$3.0 million due to foreign currency translation adjustment.



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

Notes to Consolidated Financial Statements

**Note 14****Business Segment Information, Continued**

| Fiscal 2011   | Journeys<br>Group | Underground<br>Station<br>Group | Lids<br>Sports<br>Group | Johnston<br>& Murphy<br>Group | Licensed<br>Brands | Corporate<br>& Other | Consolidated        |
|---|-------------------|---------------------------------|-------------------------|-------------------------------|--------------------|----------------------|---------------------|
| In thousands  |                   |                                 |                         |                               |                    |                      |                     |
| Sales   | \$ 804,149        | \$ 94,351                       | \$ 603,533              | \$ 185,012                    | \$ 101,839         | \$ 1,339             | \$ 1,790,223        |
| Intercompany sales  | -0-               | -0-                             | (188)                   | (1)                           | (195)              | -0-                  | (384)               |
| <b>Net sales to external customers</b>                                | <b>\$ 804,149</b> | <b>\$ 94,351</b>                | <b>\$ 603,345</b>       | <b>\$ 185,011</b>             | <b>\$ 101,644</b>  | <b>\$ 1,339</b>      | <b>\$ 1,789,839</b> |
| Segment operating income (loss)                                       | \$ 52,639         | \$ (2,997)                      | \$ 56,026               | \$ 7,595                      | \$ 12,359          | \$ (30,972)          | \$ 94,650           |
| Restructuring and other*  | -0-               | -0-                             | -0-                     | -0-                           | -0-                | (8,567)              | (8,567)             |
| <b>Earnings (loss) from operations</b>                                | <b>52,639</b>     | <b>(2,997)</b>                  | <b>56,026</b>           | <b>7,595</b>                  | <b>12,359</b>      | <b>(39,539)</b>      | <b>86,083</b>       |
| Interest expense  | -0-               | -0-                             | -0-                     | -0-                           | -0-                | (1,130)              | (1,130)             |
| Interest income   | -0-               | -0-                             | -0-                     | -0-                           | -0-                | 8                    | 8                   |
| <b>Earnings (loss) from continuing operations before income taxes</b> | <b>\$ 52,639</b>  | <b>\$ (2,997)</b>               | <b>\$ 56,026</b>        | <b>\$ 7,595</b>               | <b>\$ 12,359</b>   | <b>\$ (40,661)</b>   | <b>\$ 84,961</b>    |
| Total assets**  | \$ 240,567        | \$ 27,768                       | \$ 435,016              | \$ 72,393                     | \$ 38,152          | \$ 147,186           | \$ 961,082          |
| Depreciation and amortization   | 20,835            | 2,170                           | 18,627                  | 3,754                         | 217                | 2,135                | 47,738              |
| Capital expenditures  | 6,422             | 1,332                           | 17,908                  | 1,687                         | 27                 | 1,923                | 29,299              |

\* Restructuring and other includes a \$7.2 million charge for asset impairments, of which \$4.8 million is in the Journeys Group, \$1.0 million in the Lids Sports Group, \$0.7 million in the Johnston & Murphy Group and \$0.7 million in the Underground Station Group.

\*\* Total assets for Lids Sports Group include \$152.5 million goodwill which includes \$33.5 million of additions in Fiscal 2011 resulting from acquisitions. Total assets for Licensed Brands include \$0.8 million goodwill due to the Keuka Footwear acquisition.

| Fiscal 2010                            | Journeys<br>Group | Underground<br>Station<br>Group | Lids<br>Sports<br>Group | Johnston<br>& Murphy<br>Group | Licensed<br>Brands | Corporate<br>& Other | Consolidated        |
|--|-------------------|---------------------------------|-------------------------|-------------------------------|--------------------|----------------------|---------------------|
| In thousands                           |                   |                                 |                         |                               |                    |                      |                     |
| Sales                                  | \$ 749,202        | \$ 99,458                       | \$ 465,878              | \$ 166,081                    | \$ 93,291          | \$ 643               | \$ 1,574,553        |
| Intercompany sales                     | -0-               | -0-                             | (102)                   | (2)                           | (97)               | -0-                  | (201)               |
| <b>Net sales to external customers</b> | <b>\$ 749,202</b> | <b>\$ 99,458</b>                | <b>\$ 465,776</b>       | <b>\$ 166,079</b>             | <b>\$ 93,194</b>   | <b>\$ 643</b>        | <b>\$ 1,574,352</b> |

Edgar Filing: GENESCO INC - Form 10-K

|   |                  |                   |                  |                 |                  |                    |                  |
|---|------------------|-------------------|------------------|-----------------|------------------|--------------------|------------------|
| Segment operating income (loss)                                       | \$ 42,090        | \$ (4,809)        | \$ 42,708        | \$ 4,725        | \$ 11,974        | \$ (22,905)        | \$ 73,783        |
| Restructuring and other*  | -0-              | -0-               | -0-              | -0-             | -0-              | (13,361)           | (13,361)         |
| <b>Earnings (loss) from operations</b>                                | <b>42,090</b>    | <b>(4,809)</b>    | <b>42,708</b>    | <b>4,725</b>    | <b>11,974</b>    | <b>(36,266)</b>    | <b>60,422</b>    |
| Loss on early retirement of debt                                      | -0-              | -0-               | -0-              | -0-             | -0-              | (5,518)            | (5,518)          |
| Interest expense  | -0-              | -0-               | -0-              | -0-             | -0-              | (4,430)            | (4,430)          |
| Interest income   | -0-              | -0-               | -0-              | -0-             | -0-              | 14                 | 14               |
| <b>Earnings (loss) from continuing operations before income taxes</b> | <b>\$ 42,090</b> | <b>\$ (4,809)</b> | <b>\$ 42,708</b> | <b>\$ 4,725</b> | <b>\$ 11,974</b> | <b>\$ (46,200)</b> | <b>\$ 50,488</b> |
| Total assets**  | \$ 246,000       | \$ 28,497         | \$ 333,634       | \$ 67,705       | \$ 27,293        | \$ 160,523         | \$ 863,652       |
| Depreciation and amortization   | 23,839           | 2,669             | 14,732           | 3,891           | 174              | 2,157              | 47,462           |
| Capital expenditures  | 14,664           | 158               | 13,959           | 3,633           | 64               | 1,347              | 33,825           |

\* Restructuring and other includes a \$13.3 million charge for asset impairments, of which \$9.5 million is in the Journeys Group, \$2.1 million in the Lids Sports Group, \$0.9 million in the Johnston & Murphy Group and \$0.8 million in the Underground Station Group.

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

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

Notes to Consolidated Financial Statements

**Note 15****Quarterly Financial Information (Unaudited)**

| (In thousands, except per share amounts)                       | 1st Quarter           |                       | 2nd Quarter          |                        | 3rd Quarter           |                        | 4th Quarter            |                        | Fiscal Year  |              |
|--|-----------------------|-----------------------|----------------------|------------------------|-----------------------|------------------------|------------------------|------------------------|--------------|--------------|
|  | 2012                  | 2011                  | 2012                 | 2011                   | 2012                  | 2011                   | 2012                   | 2011                   | 2012         | 2011         |
| Net sales  | \$ 481,502            | \$ 400,853            | \$ 470,591           | \$ 363,654             | \$ 616,525            | \$ 464,838             | \$ 723,369             | \$ 560,494             | \$ 2,291,987 | \$ 1,789,839 |
| Gross margin   | 247,542               | 208,071               | 237,284              | 184,044                | 312,152               | 236,741                | 357,071                | 272,991                | 1,154,049    | 901,847      |
| Earnings (loss) from continuing operations before income taxes | 25,011 <sup>(1)</sup> | 14,316 <sup>(3)</sup> | 570 <sup>(4)</sup>   | (3,649) <sup>(6)</sup> | 44,043 <sup>(8)</sup> | 26,373 <sup>(10)</sup> | 69,154 <sup>(11)</sup> | 47,921 <sup>(12)</sup> | 138,778      | 84,961       |
| Earnings (loss) from continuing operations                     | 14,975                | 8,563                 | 350                  | (2,396)                | 26,161                | 16,967                 | 41,498                 | 31,413                 | 82,984       | 54,547       |
| Net earnings (loss)  | 14,793 <sup>(2)</sup> | 8,616                 | (392) <sup>(5)</sup> | (3,183) <sup>(7)</sup> | 26,088 <sup>(9)</sup> | 16,917                 | 41,470                 | 30,861 <sup>(13)</sup> | 81,959       | 53,211       |
| Diluted earnings (loss) per common share:                      |                       |                       |                      |                        |                       |                        |                        |                        |              |              |
| Continuing operations  | .63                   | .36                   | .01                  | (.10)                  | 1.09                  | .72                    | 1.72                   | 1.34                   | 3.48         | 2.29         |
| Net earnings (loss)  | .63                   | .36                   | (.02)                | (.14)                  | 1.09                  | .72                    | 1.72                   | 1.31                   | 3.43         | 2.24         |

- (1) Includes a net restructuring and other charge of \$1.2 million (see Note 3).
- (2) Includes a loss of \$0.2 million, net of tax, from discontinued operations (see Note 3).
- (3) Includes a net restructuring and other charge of \$2.4 million (see Note 3).
- (4) Includes a net restructuring and other charge of \$0.4 million (see Note 3).
- (5) Includes a loss of \$0.7 million, net of tax, from discontinued operations (see Note 3).
- (6) Includes a net restructuring and other charge of \$2.0 million (see Note 3).
- (7) Includes a loss of \$0.8 million, net of tax, from discontinued operations (see Note 3).
- (8) Includes a net restructuring and other charge of \$0.3 million (see Note 3).
- (9) Includes a loss of \$0.1 million, net of tax, from discontinued operations (see Note 3).
- (10) Includes a net restructuring and other charge of \$2.2 million (see Note 3).
- (11) Includes a net restructuring and other charge of \$0.8 million (see Note 3).
- (12) Includes a net restructuring and other charge of \$2.0 million (see Note 3).
- (13) Includes a loss of \$0.5 million, net of tax, from discontinued operations (see Note 3).

---

**Table of Contents**

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. 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 January 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.

*Management's report on internal control over financial reporting.*

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Company's internal control over financial reporting as of January 28, 2012. In making this assessment, management used the criteria set forth in *Internal Control - Integrated Framework* drafted by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In accordance with SEC guidance regarding the reporting of internal control over financial reporting in connection with a material acquisition, management may omit an assessment of an acquired business' internal control over financial reporting from management's assessment of internal control over financial reporting for a period not to exceed one year. Accordingly, we have excluded Schuh Group Ltd. from the scope of management's assessment of the effectiveness of the Company's internal control over financial reporting as of January 28, 2012. The total assets and net assets of Schuh Group Ltd. excluded from management's assessment constituted \$251.3 million, or 20.3%, and \$123.1 million, or 17.2%, respectively, as of January 28, 2012 and \$212.3 million, or 9.3%, and \$6.2

## **Table of Contents**

million, or 7.5%, of net sales and net earnings, respectively, for the year then ended. Management did not assess the effectiveness of internal control over financial reporting of Schuh Group Ltd. because of the timing of the acquisition, which was completed on June 23, 2011. Based on this assessment, management believes that, as of January 28, 2012, the Company's internal control over financial reporting is effective based on these criteria.

Ernst & Young LLP, the independent registered public accounting firm who also audited the Company's Consolidated Financial Statements, has issued an attestation report on the Company's internal control over financial reporting which is included herein.

### *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 last fiscal quarter that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

## **ITEM 9B. OTHER INFORMATION**

Not applicable.

## **PART III**

### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Certain information required by this item is incorporated herein by reference to the sections entitled "Election of Directors," "Corporate Governance" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's definitive proxy statement for its annual meeting of shareholders to be held June 27, 2012, to be filed with the Securities and Exchange Commission. Pursuant to General Instruction G(3), certain information concerning the executive officers of the Company appears under the caption "Executive Officers of the Registrant" in this report following Item 4 of Part I.

The Company has a code of ethics (the "Code of Ethics") that applies to all of its directors, officers (including its chief executive officer, chief financial officer and chief accounting officer) and employees. The Company has made the Code of Ethics available and intends to post any legally required amendments to, or waivers of, such Code of Ethics on its website at <http://www.genesco.com>. Our website address is provided as an inactive textual reference only. The information provided on our website is not a part of this report, and therefore is not incorporated herein by reference.

### **ITEM 11. EXECUTIVE COMPENSATION**

The information required by this item is incorporated herein by reference to the sections entitled "Director Compensation," "Compensation Committee Report" and "Executive Compensation" in the Company's definitive proxy statement for its annual meeting of shareholders to be held June 27, 2012, to be filed with the Securities and Exchange Commission.

**Table of Contents****ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Certain information required by this item is incorporated herein by reference to the section entitled "Security Ownership of Officers, Directors and Principal Shareholders" in the Company's definitive proxy statement for its annual meeting of shareholders to be held June 27, 2012, to be filed with the Securities and Exchange Commission.

The following table provides certain information as of January 28, 2012 with respect to our equity compensation plans:

**EQUITY COMPENSATION PLAN INFORMATION\***

|  | (a)<br>Number of<br>securities<br>to be issued<br>upon exercise of<br>outstanding options,<br>warrants and<br>rights | (b)<br>Weighted-average<br>exercise price<br>of<br>outstanding<br>options,<br>warrants<br>and rights | (c)<br>Number of securities<br>remaining available for<br>future issuance under<br>equity<br>compensation plans<br>(excluding<br>securities<br>reflected in column<br>(a)) <sup>(1)</sup> |
|--|--|--|---|
| Equity compensation plans approved by security holders     | 486,773  | \$ 24.70   | 2,269,247   |
| Equity compensation plans not approved by security holders |  |  |   |
| <b>Total</b>   | <b>486,773</b>   | <b>\$ 24.70</b>  | <b>2,269,247</b>  |

(1) Such shares may be issued as restricted shares or other forms of stock-based compensation pursuant to our stock incentive plans.

\* For additional information concerning our equity compensation plans, see the discussion in Note 1 in the Notes to Consolidated Financial Statements Summary of Significant Accounting Policies Share-Based Compensation and Note 12 Share-Based Compensation Plans.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this item is incorporated herein by reference to the section entitled "Election of Directors" in the Company's definitive proxy statement for its annual meeting of shareholders to be held June 27, 2012, to be filed with the Securities and Exchange Commission.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required by this item is incorporated herein by reference to the section entitled "Audit Matters" in the Company's definitive proxy statement for its annual meeting of shareholders to be held June 27, 2012, to be filed with the Securities and Exchange Commission.

---

**Table of Contents**

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

**Financial Statements**

The following consolidated financial statements of Genesco Inc. and Subsidiaries are filed as part of this report under Item 8.

Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

Report of Independent Registered Public Accounting Firm on Financial Statements

Consolidated Balance Sheets, January 28, 2012 and January 29, 2011

Consolidated Statements of Operations, each of the three fiscal years ended 2012, 2011 and 2010

Consolidated Statements of Cash Flows, each of the three fiscal years ended 2012, 2011 and 2010

Consolidated Statements of Equity, each of the three fiscal years ended 2012, 2011 and 2010

Notes to Consolidated Financial Statements

**Financial Statement Schedules**

II Valuation and Qualifying Accounts, each of the three fiscal years ended 2012, 2011 and 2010

All other schedules are omitted because the required information is either not applicable or is presented in the financial statements or related notes. These schedules begin on page 129.

**Exhibits**

- (2) a. Agreement and Plan of Merger, dated as of February 5, 2004, by and among Genesco Inc., HWC Merger Sub, Inc. and Hat World Corporation. Incorporated by reference to Exhibit (2)a to the current report on Form 8-K filed April 9, 2004 (File No. 1 3083).
  
- b. Stock Purchase Agreement, dated December 9, 2006, by and among Hat World, Inc., Hat Shack, Inc. and all the shareholders of Hat Shack, Inc. Incorporated by reference to Exhibit 10.1 to the current report on Form 8-K filed December 12, 2006 (File No. 1-3083).
  
- c. Sale and Purchase Agreement, dated as of June 23, 2011, by and among Genesco Inc., Schuh Group Limited, Genesco (UK) Limited and the persons listed on Schedule 1 thereto. (Pursuant to Item 601(b)(2) of Regulation S-K, the schedules and exhibits from this agreement are omitted, but will be provided supplementally to the Commission upon request.) Incorporated by reference to Exhibit 2.1 to the current report on Form 8-K filed June 28, 2011 (File No. 1-3083).

**Table of Contents**

- d. £25 million Loan Note Instrument of Genesco (UK) Limited dated June 23, 2011. Incorporated by reference to Exhibit 2.2 to the current report on Form 8-K filed June 28, 2011 (File No. 1-3083).
- (3) a. Amended and Restated Bylaws of Genesco Inc. Incorporated by reference to Exhibit 3.1 to the current report on Form 8-K filed December 19, 2007 (File No. 1-3083).
- b. Restated Charter of Genesco Inc., as amended. Incorporated by reference to Exhibit 1 to the Company's Registration Statement on Form 8-A/A filed with the SEC on May 1, 2003.
- (4) a. Second Amended and Restated Rights Agreement dated as of April 18, 2010. Incorporated by reference to Exhibit 4.1 to the current report on Form 8-K filed April 9, 2010 (File No. 1-3083).
- b. Form of Certificate for the Common Stock. Incorporated by reference to Exhibit 3 to the Company's Registration Statement on Form 8-A/A filed with the SEC on May 1, 2003.
- (10) a. Second Amended and Restated Credit Agreement, dated as of January 21, 2011, by and among the Company, certain subsidiaries of the Company party thereto, as other domestic borrowers and GCO Canada Inc., the lenders party thereto and Bank of America, N.A., as administrative agent and collateral agent. Incorporated by reference to Exhibit 10.1 to the current report on Form 8-K filed January 26, 2011 (File No. 1-3083). First Amendment to Second Amended and Restated Credit Agreement, dated June 23, 2011, by and among Genesco Inc., certain subsidiaries of Genesco Inc. party thereto, as other domestic borrowers and GCO Canada Inc., the lenders party thereto and Bank of America, N.A., as administrative agent and collateral agent. Incorporated by reference to Exhibit 10.1 to the current report on Form 8-K filed June 28, 2011 (File No. 1-3083).
- b. Form of Split-Dollar Insurance Agreement with Executive Officers. Incorporated by reference to Exhibit (10)a to the Company's Annual Report on Form 10-K for the fiscal year ended February 1, 1997.
- c. 1996 Stock Incentive Plan Amended and Restated as of October 24, 2007. Form of Option Agreement. Incorporated by reference to Exhibit (10)c to the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2007.
- d. Genesco Inc. 2005 Equity Incentive Plan Amended and Restated as of October 24, 2007. Incorporated by reference to Exhibit (10)d to the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2008.
- e. Genesco Inc. 2009 Equity Incentive Plan. Incorporated by reference to Exhibit A to the Company's definitive proxy statement dated May 15, 2009. Amended and Restated Genesco Inc. 2009 Equity Incentive Plan. Incorporated by reference to Exhibit A to the Company's definitive proxy statement dated May 13, 2011.
- f. Amended and Restated EVA Incentive Compensation Plan. Incorporated by reference to Exhibit (10)a to the Company's Quarterly Report on Form 10-Q for the quarter ended April 30, 2011. Genesco Inc. Supplemental EVA Incentive Compensation Plan for the Period July 31, 2011 - January 28, 2012.



---

**Table of Contents**

- g. Form of Incentive Stock Option Agreement. Incorporated by reference to Exhibit (10)c to the Company's Quarterly Report on Form 10-Q for the quarter ended October 29, 2005.
- h. Form of Non-Qualified Stock Option Agreement. Incorporated by reference to Exhibit (10)d to the Company's Quarterly Report on Form 10-Q for the quarter ended October 29, 2005.
- i. Form of Restricted Share Award Agreement for Executive Officers. Incorporated by reference to Exhibit (10)e to the Company's Quarterly Report on Form 10-Q for the quarter ended October 29, 2005.
- j. Form of Restricted Share Award Agreement for Officers and Employees. Incorporated by reference to Exhibit (10)f to the Company's Quarterly Report on Form 10-Q for the quarter ended October 29, 2005.
- k. Form of Restricted Share Award Agreement. Incorporated by reference to Exhibit (10)a to the Company's Quarterly Report on Form 10-Q for the quarter ended August 1, 2009.
- l. Form of Indemnification Agreement For Directors. Incorporated by reference to Exhibit (10)m to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1993.
- m. Form of Non-Executive Director Indemnification Agreement. Incorporated by reference to Exhibit (10.1) to the current report on Form 8-K filed November 3, 2008 (File No. 1-3083).
- n. Form of Officer Indemnification Agreement. Incorporated by reference to Exhibit (10.2) to the Company's Quarterly Report on Form 10-Q for the quarter ended November 1, 2008.
- o. Supplemental Pension Agreement dated as of October 18, 1988 between the Company and William S. Wire II, as amended January 9, 1993. Incorporated by reference to Exhibit (10)p to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1993.
- p. Deferred Compensation Trust Agreement dated as of February 27, 1991 between the Company and NationsBank of Tennessee for the benefit of William S. Wire, II, as amended January 9, 1993. Incorporated by reference to Exhibit (10)q to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1993.
- q. Form of Employment Protection Agreement between the Company and certain executive officers dated as of February 26, 1997. Incorporated by reference to Exhibit (10)p to the Company's Annual Report on Form 10-K for the fiscal year ended February 1, 1997.
- r. First Amendment to Form of Employment Protection Agreement. Incorporated by reference to Exhibit (10)s to the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 2010.
- s. Employment Agreement dated as of March 29, 2010 between the Company and Hal N. Pennington. Incorporated by reference to Exhibit (10)t to the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 2010.

Edgar Filing: GENESCO INC - Form 10-K

- t. Trademark License Agreement, dated August 9, 2000, between Levi Strauss & Co. and Genesco Inc. Incorporated by reference to Exhibit (10.1) to the Company's Quarterly Report on Form 10-Q for the quarter ended October 30, 2004.\*
  
- u. Amendment No. 1 (Renewal) to Trademark License Agreement, dated October 18, 2004, between Levi Strauss & Co. and Genesco Inc. Incorporated by reference to Exhibit (10.2) to the Company's Quarterly Report on Form 10-Q for the quarter ended October 30, 2004.\*

**Table of Contents**

- v. Amendment No. 2 (Renewal) to Trademark License Agreement, dated November 1, 2006, between Levi Strauss & Co. and Genesco. Inc. Incorporated by reference to Exhibit (10.1) to the Company's Quarterly Report on Form 10-Q for the quarter ended October 28, 2006.\*
- w. Amendment No. 4 (Renewal) to Trademark License Agreement, dated May 15, 2009, between Levi Strauss & Co. and Genesco Inc. Incorporated by reference to Exhibit (10)b to the Company's Quarterly Report on Form 10-Q for the quarter ended August 1, 2009.\*
- x. Genesco Inc. Deferred Income Plan dated as of July 1, 2000. Incorporated by reference to Exhibit (10)p to the Company's Annual Report on Form 10-K for the fiscal year ended January 29, 2005. Amended and Restated Deferred Income Plan dated August 22, 2007. Incorporated by reference to Exhibit (10)r to the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2008.
- y. Non-Employee Director and Named Executive Officer Compensation. Incorporated by reference to Exhibit (10)b to the Company's Quarterly Report on Form 10-Q for the quarter ended October 29, 2005.
- z. The Schuh Group Limited 2015 Management Bonus Scheme. Incorporated by reference to Exhibit (10)a to the Company's Quarterly Report on Form 10-Q for the quarter ended July 30, 2011.
- aa. 1996 Employee Stock Purchase Plan. Incorporated by reference to Registration Statement on Form S-8 filed September 14, 1995 (File No. 333-62653).
- bb. Amended and Restated Genesco Employee Stock Purchase Plan dated August 22, 2007. Incorporated by reference to Exhibit (10)u to the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2008.
- cc. Basic Form of Exchange Agreement (Restricted Stock). Incorporated by reference to Exhibit 10.1 to the current report on Form 8-K filed April 29, 2009 (File No. 1-3083).
- dd. Basic Form of Exchange Agreement (Unrestricted Stock). Incorporated by reference to Exhibit 10.2 to the current report on Form 8-K filed April 29, 2009 (File No. 1-3083).
- ee. Form of Conversion Agreement. Incorporated by reference to Exhibit 10.1 to the current report on Form 8-K filed November 2, 2009 (File No. 1-3083).
- ff. Form of Conversion Agreement. Incorporated by reference to Exhibit 10.1 to the current report on Form 8-K filed November 6, 2009 (File No. 1-3083).
- gg. Settlement Agreement, dated as of March 3, 2008, by and among UBS Securities LLC and UBS Loan Finance LLC, The Finish Line, Inc. and Headwind, Inc. and Genesco Inc. Incorporated by reference to Exhibit 10.1 to the current report on Form 8-K filed March 4, 2008 (File No. 1-3083).

Edgar Filing: GENESCO INC - Form 10-K

- (21) Subsidiaries of the Company.
- (23) Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm included on page 127.
- (24) Power of Attorney
- (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.

**Table of Contents**

(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.

(99) Financial Statements and Report of Independent Registered Public Accounting Firm with respect to the Genesco Employee Stock Purchase Plan being filed herein in lieu of filing Form 11-K pursuant to Rule 15d-21.

Exhibits (10)b through (10)k, (10)q through (10)s and (10)x through (10)bb are Management Contracts or Compensatory Plans or Arrangements required to be filed as Exhibits to this Form 10-K.

\* Certain information has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portion.

A copy of any of the above described exhibits will be furnished to the shareholders upon written request, addressed to Director, Corporate Relations, Genesco Inc., Genesco Park, Room 498, P.O. Box 731, Nashville, Tennessee 37202-0731, accompanied by a check in the amount of \$15.00 payable to Genesco Inc.

**Table of Contents**

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the Registration Statements on Form S-8 (Registration Nos. 333-62653, 333-08463, 333-104908, 333-128201 and 333-160339) and in the Registration Statement on Form S-3 (Registration No. 333-109019) of Genesco Inc. of our reports dated March 28, 2012, with respect to the consolidated financial statements and schedule of Genesco Inc. and Subsidiaries, and the effectiveness of internal control over financial reporting of Genesco Inc. and Subsidiaries, included in this Annual Report (Form 10-K) for the year ended January 28, 2012.

We also consent to the incorporation by reference in the Registration Statement on Form S-8 (Registration No. 333-62653) pertaining to the 1996 Employee Stock Purchase Plan of Genesco Inc. of our report dated March 28, 2012 with respect to the financial statements of the Genesco Inc. Employee Stock Purchase Plan, included as an exhibit to this Annual Report (Form 10-K) for the year ended January 28, 2012.

/s/ Ernst & Young LLP

Nashville, Tennessee

March 28, 2012

**Table of Contents**

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: March 28, 2012

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on the 28th day of March, 2012.

/s/Robert J. Dennis  
Robert J. Dennis

Chairman, President, Chief Executive Officer  
and a Director

/s/James S. Gulmi  
James S. Gulmi

Senior Vice President Finance and  
Chief Financial Officer  
(Principal Financial Officer)

/s/Paul D. Williams  
Paul D. Williams

Vice President and Chief Accounting Officer

Directors:

James S. Beard\*

Matthew C. Diamond \*

Leonard L. Berry \*

Marty G. Dickens \*

William F. Blaufuss, Jr.\*

Ben T. Harris \*

James W. Bradford\*

Kathleen Mason \*

Robert V. Dale \*

Thurgood Marshall, Jr. \*

\*By /s/Roger G. Sisson

Roger G. Sisson

Attorney-In-Fact

**Table of Contents**

**Genesco Inc.**

**and Subsidiaries**

Financial Statement Schedule

January 28, 2012

129



**Table of Contents**

Schedule 2

Genesco Inc.

and Subsidiaries

Valuation and Qualifying Accounts

**Year Ended January 28, 2012**

| In Thousands  | Beginning Balance | Charged to Profit and Loss | Increases (Decreases)   | Ending Balance  |
|---|-------------------|----------------------------|-------------------------|-----------------|
| Reserves deducted from assets in the balance sheet: |                   |                            |                         |                 |
| Allowance for bad debts                             | \$ 2,239          | \$ 2,001                   | \$ (114) <sup>(1)</sup> | \$ 4,126        |
| Allowance for cash discounts                        | 8                 | -0-                        | 4 <sup>(2)</sup>        | 12              |
| Allowance for wholesale sales returns               | 819               | -0-                        | 1,430 <sup>(3)</sup>    | 2,249           |
| Allowance for customer deductions                   | 50                | -0-                        | 28 <sup>(4)</sup>       | 78              |
| Allowance for co-op advertising                     | 185               | -0-                        | 250 <sup>(5)</sup>      | 435             |
| <b>Totals</b>                                       | <b>\$ 3,301</b>   | <b>\$ 2,001</b>            | <b>\$ 1,598</b>         | <b>\$ 6,900</b> |

**Year Ended January 29, 2011**

| In Thousands  | Beginning Balance | Charged to Profit and Loss | Increases (Decreases)   | Ending Balance  |
|---|-------------------|----------------------------|-------------------------|-----------------|
| Reserves deducted from assets in the balance sheet: |                   |                            |                         |                 |
| Allowance for bad debts                             | \$ 1,477          | \$ 1,078                   | \$ (316) <sup>(1)</sup> | \$ 2,239        |
| Allowance for cash discounts                        | 6                 | -0-                        | 2 <sup>(2)</sup>        | 8               |
| Allowance for wholesale sales returns               | 1,368             | -0-                        | (549) <sup>(3)</sup>    | 819             |
| Allowance for customer deductions                   | 27                | -0-                        | 23 <sup>(4)</sup>       | 50              |
| Allowance for co-op advertising                     | 354               | -0-                        | (169) <sup>(5)</sup>    | 185             |
| <b>Totals</b>                                       | <b>\$ 3,232</b>   | <b>\$ 1,078</b>            | <b>\$ (1,009)</b>       | <b>\$ 3,301</b> |

**Year Ended January 30, 2010**

| In Thousands  | Beginning Balance | Charged to Profit and Loss | Increases (Decreases)   | Ending Balance |
|---|-------------------|----------------------------|-------------------------|----------------|
| Reserves deducted from assets in the balance sheet: |                   |                            |                         |                |
| Allowance for bad debts                             | \$ 1,262          | \$ 400                     | \$ (185) <sup>(1)</sup> | \$ 1,477       |
| Allowance for cash discounts                        | 3                 | -0-                        | 3 <sup>(2)</sup>        | 6              |
| Allowance for wholesale sales returns               | 1,377             | -0-                        | (9) <sup>(3)</sup>      | 1,368          |
| Allowance for customer deductions                   | 79                | -0-                        | (52) <sup>(4)</sup>     | 27             |
| Allowance for co-op advertising                     | 331               | -0-                        | 23 <sup>(5)</sup>       | 354            |

## Edgar Filing: GENESCO INC - Form 10-K

|               |          |        |          |          |
|---------------|----------|--------|----------|----------|
| <b>Totals</b> | \$ 3,052 | \$ 400 | \$ (220) | \$ 3,232 |
|---------------|----------|--------|----------|----------|

Note: Most subsidiaries and branches charge credit and collection expense directly to profit and loss. Adding such charges of \$16,000 in 2012, \$17,000 in 2011 and \$9,000 in 2010 to the addition above, the total bad debt expense amounted to \$2.0 million in 2012, \$1.1 million in 2011 and \$0.4 million in 2010.

- (1) Bad debt charged to reserve.
- (2) Adjustment of allowance for estimated discounts to be allowed subsequent to period end on receivables at same date.
- (3) Adjustment of allowance for sales returns to be allowed subsequent to period end on receivables at same date.
- (4) Adjustment of allowance for customer deductions to be allowed subsequent to period end on receivables at same date.
- (5) Adjustment of allowance for estimated co-op advertising to be allowed subsequent to period end on receivables at same date.