GENESCO INC
Form 10-Q
June 11, 2009

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

(Mark One)

þ **Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934**
For Quarter Ended May 2, 2009

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

Genesco Inc.

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large 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 þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

Common Shares Outstanding May 29, 2009 22,273,071

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Genesco Inc.
and Subsidiaries

Condensed Consolidated Balance Sheets
(In Thousands, except share amounts)

Assets	**May 2, 2009**	January 31, 2009	May 3, 2008
Current Assets			
Cash and cash equivalents	**$ 16,690**	$ 17,672	$ 16,480
Restricted investment in Finish Line stock	**-0-**	-0-	29,075
Accounts receivable, net of allowances of $3,168 at May 2, 2009, $3,052 at January 31, 2009 and $1,679 at May 3, 2008	**28,417**	23,744	26,532
Inventories	**298,733**	306,078	284,873
Deferred income taxes	**15,122**	15,083	18,699
Prepaids and other current assets	**39,589**	35,542	24,503
Total current assets	**398,551**	398,119	400,162
Property and equipment:			
Land	**4,863**	4,863	4,861
Buildings and building equipment	**17,990**	17,990	17,314
Computer hardware, software and equipment	**80,602**	79,255	76,791
Furniture and fixtures	**99,475**	99,954	94,675
Construction in progress	**9,010**	7,044	12,059
Improvements to leased property	**272,736**	274,613	267,942
Property and equipment, at cost	**484,676**	483,719	473,642
Accumulated depreciation	**(250,925)**	(244,038)	(222,886)
Property and equipment, net	**233,751**	239,681	250,756
Deferred income taxes	**10,360**	5,302	20
Goodwill	**111,666**	111,680	107,618
Trademarks	**51,759**	51,749	51,397
Other intangibles, net of accumulated amortization of $8,491 at May 2, 2009, $8,250 at January 31, 2009 and $7,634 at May 3, 2008	**1,861**	2,082	1,278
Other noncurrent assets	**7,165**	7,450	9,650
Total Assets	**$ 815,113**	$ 816,063	$ 820,881

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

Liabilities and Shareholders Equity	May 2, 2009	January 31, 2009	May 3, 2008
Current Liabilities			
Accounts payable	**$ 80,604**	$ 73,143	$ 71,684
Accrued employee compensation	**14,154**	15,780	11,097
Accrued other taxes	**10,428**	11,254	10,447
Accrued income taxes	**641**	634	66,643
Dividend payable	**-0-**	-0-	29,075
Other accrued liabilities	**28,252**	28,727	29,998
Provision for discontinued operations	**9,545**	9,444	5,638
Total current liabilities	**143,624**	138,982	224,582
Long-term debt	**51,648**	113,735	79,037
Pension liability	**22,197**	25,968	2,949
Deferred rent and other long-term liabilities	**81,923**	81,499	75,215
Provision for discontinued operations	**6,124**	6,124	1,644
Total liabilities	**305,516**	366,308	383,427
Commitments and contingent liabilities			
Shareholders Equity			
Non-redeemable preferred stock	**5,254**	5,203	5,319
Common shareholders equity:			
Common stock, $1 par value:			
Authorized: 80,000,000 shares			
Issued/Outstanding:			
May 2, 2009 22,761,309/22,272,845			
January 31, 2009 19,731,979/19,243,515			
May 3, 2008 19,657,587/19,169,123	**22,761**	19,732	19,658
Additional paid-in capital	**112,061**	49,780	43,943
Retained earnings	**417,783**	423,595	402,403
Accumulated other comprehensive loss	**(30,405)**	(30,698)	(16,012)
Treasury shares, at cost	**(17,857)**	(17,857)	(17,857)
Total shareholders equity	**509,597**	449,755	437,454
Total Liabilities and Shareholders Equity	**$ 815,113**	$ 816,063	$ 820,881

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

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Genesco Inc.
and Subsidiaries
Condensed Consolidated Statements of Earnings
(In Thousands, except per share amounts)

	Three Months Ended	
	May 2, 2009	May 3, 2008
Net sales	**$ 370,366**	$ 356,935
Cost of sales	**181,144**	175,540
Selling and administrative expenses	**181,369**	180,046
Gain from settlement of merger-related litigation	**-0-**	(204,075)
Restructuring and other, net	**4,973**	2,237
Earnings from operations	**2,880**	203,187
Loss on early retirement of debt	**5,119**	-0-
Interest expense, net:		
Interest expense	**3,091**	3,200
Interest income	**(8)**	(255)
Total interest expense, net	**3,083**	2,945
(Loss) earnings before income taxes from continuing operations	**(5,322)**	200,242
Income taxes	**281**	70,802
(Loss) earnings from continuing operations	**(5,603)**	129,440
Provision for discontinued operations, net	**(159)**	(93)
Net (Loss) Earnings	**$ (5,762)**	$ 129,347
Basic (loss) earnings per common share:		
Continuing operations	**$ (0.30)**	$ 6.15
Discontinued operations	**(0.01)**	(.01)
Net (loss) earnings	**$ (0.31)**	$ 6.14
Diluted (loss) earnings per common share:		
Continuing operations	**$ (0.30)**	$ 5.14
Discontinued operations	**(0.01)**	0.00
Net (loss) earnings	**$ (0.31)**	$ 5.14

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

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

	Three Months Ended	
	May 2, 2009	May 3, 2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) earnings	**$ (5,762)**	$ 129,347
Adjustments to reconcile net (loss) earnings to net cash provided by operating activities:		
Depreciation	**12,128**	11,660
Amortization of deferred note expense and debt discount	**1,018**	952
Loss on early retirement of debt	**5,119**	-0-
Receipt of Finish Line stock	**-0-**	(29,075)
Deferred income taxes	**1,675**	(457)
Provision for losses on accounts receivable	**100**	39
Impairment of long-lived assets	**4,467**	1,227
Share-based compensation and restricted stock	**1,599**	2,001
Provision for discontinued operations	**262**	152
Other	**512**	489
Effect on cash from changes in working capital and other assets and liabilities:		
Accounts receivable	**(4,773)**	(2,296)
Inventories	**7,345**	15,675
Prepaids and other current assets	**(4,047)**	(2,065)
Accounts payable	**11,117**	6,527
Other accrued liabilities	**(4,592)**	51,042
Other assets and liabilities	**(3,054)**	(1,877)
Net cash provided by operating activities	**23,114**	183,341
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	**(11,008)**	(16,967)
Acquisitions, net of cash acquired	**(5)**	-0-
Proceeds from asset sales	**2**	4
Net cash used in investing activities	**(11,011)**	(16,963)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of capital leases	**(45)**	(47)
Shares repurchased	**-0-**	(88,386)
Change in overdraft balances	**(3,656)**	(10,145)
Borrowings under revolving credit facility	**41,100**	39,000
Payments on revolving credit facility	**(50,200)**	(108,000)
Dividends paid on non-redeemable preferred stock	**(50)**	(49)
Exercise of stock options	**55**	26
Other	**(289)**	-0-

Net cash used in financing activities	**(13,085)**	(167,601)
Net Decrease in Cash and Cash Equivalents	**(982)**	(1,223)
Cash and cash equivalents at beginning of period	**17,672**	17,703
Cash and cash equivalents at end of period	**$ 16,690**	$ 16,480
Supplemental Cash Flow Information:		
Net cash paid for:		
Interest	**$ 1,112**	$ 1,640
Income taxes	**864**	8,938

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

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

	Total Non-Redeemable Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Comprehensive Income	Total Share-holders Equity
Balance February 2, 2008 (as adjusted, see Note 2)	$ 5,338	$23,285	$129,179	$302,181	$(16,010)	$(17,857)		$426,116
Net earnings	-0-	-0-	-0-	150,756	-0-	-0-	$150,756	150,756
Dividends paid on non-redeemable preferred stock	-0-	-0-	-0-	(198)	-0-	-0-	-0-	(198)
Dividend declared Finish Line stock	-0-	-0-	-0-	(29,075)	-0-	-0-	-0-	(29,075)
Exercise of stock options	-0-	83	1,355	-0-	-0-	-0-	-0-	1,438
Issue shares Employee Stock Purchase Plan	-0-	2	53	-0-	-0-	-0-	-0-	55
Shares repurchased	-0-	(4,000)	(86,903)	-0-	-0-	-0-	-0-	(90,903)
Restricted stock issuance	-0-	416	(416)	-0-	-0-	-0-	-0-	-0-
Employee and non-employee restricted stock	-0-	-0-	6,341	-0-	-0-	-0-	-0-	6,341
Share-based compensation	-0-	-0-	1,690	-0-	-0-	-0-	-0-	1,690
Restricted shares withheld for taxes	-0-	(53)	(1,092)	-0-	-0-	-0-	-0-	(1,145)
Tax benefit of stock options exercised	-0-	-0-	(563)	-0-	-0-	-0-	-0-	(563)
Adjustment of measurement date provision of SFAS 158 (net of tax of $0.0 million)	-0-	-0-	-0-	(69)	-0-	-0-	-0-	(69)
Loss on foreign currency forward	-0-	-0-	-0-	-0-	(275)	-0-	(275)	(275)

contracts (net of tax of $0.2 million)								
Pension liability adjustment (net of tax benefit of $8.5 million)	-0-	-0-	-0-	-0-	(13,355)	-0-	(13,355)	(13,355)
Postretirement liability adjustment (net of tax of $0.1 million)	-0-	-0-	-0-	-0-	119	-0-	119	119
Foreign currency translation adjustment	-0-	-0-	-0-	-0-	(1,177)	-0-	(1,177)	(1,177)
Other	(135)	(1)	136	-0-	-0-	-0-	-0-	-0-
Comprehensive income							$ 136,068	
Balance January 31, 2009	5,203	19,732	49,780	423,595	(30,698)	(17,857)		449,755
Net loss	-0-	-0-	-0-	(5,762)	-0-	-0-	$ (5,762)	(5,762)
Dividends paid on non-redeemable preferred stock	-0-	-0-	-0-	(50)	-0-	-0-	-0-	(50)
Exercise of stock options	-0-	4	51	-0-	-0-	-0-	-0-	55
Employee and non-employee restricted stock	-0-	-0-	1,465	-0-	-0-	-0-	-0-	1,465
Share-based compensation	-0-	-0-	134	-0-	-0-	-0-	-0-	134
Restricted shares withheld for taxes	-0-	(41)	(521)	-0-	-0-	-0-	-0-	(562)
Conversion of 4 1/8% debentures	-0-	3,067	61,202	-0-	-0-	-0-	-0-	64,269
Loss on foreign currency forward contracts (net of tax of $0.0 million)	-0-	-0-	-0-	-0-	(59)	-0-	(59)	(59)
Foreign currency translation adjustment	-0-	-0-	-0-	-0-	352	-0-	352	352
Other	51	(1)	(50)	-0-	-0-	-0-	-0-	-0-
Comprehensive loss*							$ (5,469)	

Balance May 2, 2009	**$ 5,254**	**$22,761**	**$112,061**	**$417,783**	**$ (30,405)**	**$ (17,857)**		**$509,597**

* Comprehensive income was $129.3 million for the first quarter ended May 3, 2008.

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

Genesco Inc.
and Subsidiaries
Notes to Condensed Consolidated Financial Statements

Note 1
Summary of Significant Accounting Policies

Interim Statements

The condensed consolidated financial statements contained in this report are unaudited but reflect all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the results for the interim periods of the fiscal year ending January 30, 2010 (Fiscal 2010) and of the fiscal year ended January 31, 2009 (Fiscal 2009). The results of operations for any interim period are not necessarily indicative of results for the full year. The interim financial statements should be read in conjunction with the financial statements and notes thereto included in the Company s Annual Report on Form 10-K.

Nature of Operations

The Company s businesses include the design or sourcing, marketing and distribution of footwear, principally under the *Johnston & Murphy* and *Dockers* brands and the operation at May 2, 2009 of 2,236 *Journeys, Journeys Kidz, Shi by Journeys, Johnston & Murphy, Underground Station, Hat World, Lids, Hat Shack, Hat Zone, Head Quarters, Cap Connection* and *Lids Locker Room* retail footwear and headwear stores. In November 2008, the Company acquired Impact Sports, a dealer of branded athletic and team products for college and high school teams, as part of the Hat World Group.

Principles of Consolidation

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

Financial Statement Reclassifications

Certain reclassifications have been made to conform prior years data to the current year presentation.

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.

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

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

Inherent in the retail inventory method are subjective judgments and estimates, including merchandise mark-on, markups, markdowns, and shrinkage. These judgments and estimates, coupled with the fact that the retail inventory method is an averaging process, could produce a range of cost figures. To reduce the risk of inaccuracy and to ensure consistent presentation, the Company employs the retail inventory method in multiple subclasses of inventory 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.

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

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

Genesco Inc.
and Subsidiaries
Notes to Condensed 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 Note 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 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 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 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 is consistent with the risks inherent in its business and with industry discount rates.

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Genesco Inc.
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Notes to Condensed Consolidated Financial Statements

Note 1
Summary of Significant Accounting Policies, Continued

Environmental and Other Contingencies

The Company is subject to certain loss contingencies related to environmental proceedings and other legal matters, including those disclosed in Note 11. The Company has made pretax accruals for certain of these contingencies, including approximately $0.4 million in the first quarter of Fiscal 2010 and $0.2 million in the first quarter of Fiscal 2009. These charges are included in provision for discontinued operations, net in the Condensed Consolidated Statements of Earnings (see Note 5). The Company monitors these matters on an ongoing basis and, on a quarterly basis, management reviews the Company s reserves and accruals in relation to each of them, adjusting provisions as management deems necessary in view of changes in available information. Changes in estimates of liability are reported in the periods when they occur. Consequently, management believes that its reserve in relation to each proceeding is a best estimate of probable loss connected to the proceeding, or in cases in which no best estimate is possible, the minimum amount in the range of estimated losses, based upon its analysis of the facts and circumstances as of the close of the most recent fiscal quarter. However, because of uncertainties and risks inherent in litigation generally and in environmental proceedings in particular, there can be no assurance that future developments will not require additional reserves to be set aside, that some or all reserves will be adequate or that the amounts of any such additional reserves or any such inadequacy will not have a material adverse effect upon the Company s financial condition or results of operations.

Revenue Recognition

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

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Genesco Inc.
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Notes to Condensed Consolidated Financial Statements

Note 1
Summary of Significant Accounting Policies, Continued

Income Taxes

As part of the process of preparing Condensed Consolidated Financial Statements, the Company is required to estimate its income taxes in each of the tax jurisdictions in which it operates. This process involves estimating actual current tax obligations together with assessing temporary differences resulting from differing treatment of certain items for tax and accounting purposes, such as depreciation of property and equipment and valuation of inventories. These temporary differences result in deferred tax assets and liabilities, which are included within the Condensed Consolidated Balance Sheets. The Company then assesses the likelihood that its deferred tax assets will be recovered from future taxable income. Actual results could differ from this assessment if adequate taxable income is not generated in future periods. To the extent the Company believes that recovery of an asset is at risk, valuation allowances are established. To the extent valuation allowances are established or increase the allowances in a period, the Company includes an expense within the tax provision in the Condensed Consolidated Statements of Earnings. Income tax reserves are determined using the methodology established by the Financial Accounting Standards Board (FASB) Interpretation 48, Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement 109 (FIN 48). FIN 48, which was adopted by the Company as of February 4, 2007, requires companies to assess each income tax position taken using a two step process. A determination is first made as to whether it is more likely than not that the position will be sustained, based upon the technical merits, upon examination by the taxing authorities. If the tax position is expected to meet the more likely than not criteria, the benefit recorded for the tax position equals the largest amount that is greater than 50% likely to be realized upon ultimate settlement of the respective tax position. Uncertain tax positions require determinations and estimated liabilities to be made based on provisions of the tax law which may be subject to change or varying interpretation. If the Company s determinations and estimates prove to be inaccurate, the resulting adjustments could be material to its future financial results.

Postretirement Benefits Plan Accounting

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

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Genesco Inc.
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Notes to Condensed Consolidated Financial Statements

Note 1
Summary of Significant Accounting Policies, Continued

In September 2006, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R) (SFAS No. 158) which requires companies to recognize the overfunded or underfunded status of postretirement benefit plans as an asset or liability in their condensed consolidated balance sheets and to recognize changes in that funded status in accumulated other comprehensive loss, net of tax, in the year in which the changes occur. This statement did not change the accounting for plans required by SFAS No. 87, Employers Accounting for Pensions (SFAS No. 87) and it did not eliminate any of the expanded disclosures required by SFAS No. 132(R), Employers Disclosures about Pensions and Other Postretirement Benefits. On February 3, 2007, the Company adopted the recognition and disclosure provisions of SFAS No. 158. SFAS No. 158 also requires companies to measure the funded status of a plan as of the date of its fiscal year end. The Company adopted the measurement date change of SFAS No. 158 as of January 31, 2009. SFAS No. 158 required the Company to change the measurement date for its defined benefit pension plan and postretirement benefit plan from December 31 to January 31 (end of fiscal year). As a result of this change, pension expense and actuarial gains/losses for the one-month period ended January 31, 2009 were recognized as adjustments to retained earnings and accumulated other comprehensive loss, respectively. The after-tax charge to retained earnings was $0.1 million. The adoption of the measurement date provision of SFAS No. 158 had no effect on the Company s Condensed Consolidated Statements of Earnings for Fiscal 2009 or any prior period presented. It will not affect the Company s operating results in future periods.

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

Share-Based Compensation

The Company has share-based compensation plans covering certain members of management and non-employee directors. Pursuant to SFAS No. 123 (revised 2004), Share-Based Payment (SFAS No. 123(R)), the Company recognizes compensation expense for share-based payments based on the fair value of the awards. For the first quarters of Fiscal 2010 and 2009, share-based compensation expense was $0.1 million and $0.6 million, respectively. For the first quarters of Fiscal 2010 and 2009, restricted stock expense was $1.5 million and $1.4 million, respectively. The benefits of tax deductions in excess of recognized compensation expense are reported as a financing cash flow.

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Genesco Inc.
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Note 1
Summary of Significant Accounting Policies, Continued

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

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

The Company did not grant any stock options for the three months ended May 2, 2009 or May 3, 2008. During the three months ended May 2, 2009, the Company did not issue any shares of employee restricted stock. During the three months ended May 3, 2008, the Company issued 371,216 shares of employee restricted stock which vest over a three-year term and had a grant date fair value of $20.16 per share. There was no director retainer stock issued for the three months ended May 2, 2009 or May 3, 2008.

Cash and Cash Equivalents

Included in cash and cash equivalents at May 2, 2009, January 31, 2009 and May 3, 2008 are cash equivalents of $0.2 million, $0.1 million and $0.1 million, respectively. Cash equivalents are highly-liquid financial instruments having an original maturity of three months or less. The majority of payments due from banks for customer credit card transactions process within 24 48 hours and are accordingly classified as cash and cash equivalents.

At May 2, 2009, January 31, 2009 and May 3, 2008 outstanding checks drawn on zero-balance accounts at certain domestic banks exceeded book cash balances at those banks by approximately $25.2 million, $28.8 million and $16.3 million, respectively. These amounts are included in accounts payable.

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Note 1
Summary of Significant Accounting Policies, Continued

Concentration of Credit Risk and Allowances on Accounts Receivable

The Company s footwear wholesale businesses sell primarily to independent retailers and department stores across the United States. Receivables arising from these sales are not collateralized. Customer credit risk is affected by conditions or occurrences within the economy and the retail industry as well as by customer specific factors. One customer accounted for 16% and another customer accounted for 10% of the Company s trade receivables balance and no other customer accounted for more than 9% of the Company s trade receivables balance as of May 2, 2009.

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

Property and Equipment

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

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

Leases

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

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

Genesco Inc.
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Note 1
Summary of Significant Accounting Policies, Continued

The Company occasionally receives reimbursements from landlords to be used towards construction of the store the Company intends to lease. Leasehold improvements are recorded at their gross costs including items reimbursed by landlords. The reimbursements are amortized as a reduction of rent expense over the initial lease term. Tenant allowances of $24.2 million, $24.6 million and $25.7 million at May 2, 2009, January 31, 2009 and May 3, 2008, respectively, and deferred rent of $29.7 million, $29.0 million and $27.3 million at May 2, 2009, January 31, 2009 and May 3, 2008, respectively, are included in deferred rent and other long-term liabilities on the Condensed Consolidated Balance Sheets.

Goodwill and Other Intangibles

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

Intangible assets of the Company with indefinite lives are primarily goodwill and identifiable trademarks acquired in connection with the acquisition of Hat World Corporation in April 2004, Hat Shack, Inc. in January 2007 and Impact Sports in November 2008. The Condensed Consolidated Balance Sheets include goodwill for the Hat World Group of $111.7 million at May 2, 2009 and January 31, 2009 and $107.6 million at May 3, 2008. 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.

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

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Genesco Inc.
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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 $1.0 million and $0.9 million for the first quarter of Fiscal 2010 and Fiscal 2009, respectively.

Gift Cards

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

Gift card breakage is recognized in revenues each period. Gift card breakage recognized as revenue was less than $0.1 million for the first quarter of Fiscal 2010 and 2009. The Condensed Consolidated Balance Sheets include an accrued liability for gift cards of $6.5 million, $7.5 million and $6.5 million at May 2, 2009, January 31, 2009 and May 3, 2008, respectively.

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Genesco Inc.
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Note 1
Summary of Significant Accounting Policies, Continued

Buying, Merchandising and Occupancy Costs

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

Shipping and Handling Costs

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

Preopening Costs

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

Store Closings and Exit Costs

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

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

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

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

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Genesco Inc.
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Note 1
Summary of Significant Accounting Policies, Continued

Advertising Costs

Advertising costs are predominantly expensed as incurred. Advertising costs were $8.9 million and $8.8 million for the first quarter of Fiscal 2010 and 2009, respectively. Direct response advertising costs for catalogs are capitalized in accordance with the American Institute of Certified Public Accountants (AICPA) Statement of Position No. 93-7, Reporting on Advertising Costs. Such costs are amortized over the estimated future revenues realized from such advertising, not to exceed six months. The Condensed Consolidated Balance Sheets include prepaid assets for direct response advertising costs of $1.7 million, $1.2 million and $1.5 million at May 2, 2009, January 31, 2009 and May 3, 2008, respectively.

Consideration to Resellers

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

Cooperative Advertising

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

Cooperative advertising costs recognized in selling and administrative expenses were $1.0 million and $0.6 million for the first quarter of Fiscal 2010 and 2009, respectively. During the first quarter of Fiscal 2010 and 2009, the Company s cooperative advertising reimbursements paid did not exceed the fair value of the benefits received under those agreements.

Genesco Inc.
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Notes to Condensed Consolidated Financial Statements

Note 1
Summary of Significant Accounting Policies, Continued

Vendor Allowances

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

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

Vendor reimbursements of cooperative advertising costs recognized as a reduction of selling and administrative expenses were $0.8 million and $1.0 million for the first quarter of Fiscal 2010 and 2009, respectively. During the first quarter of Fiscal 2010 and 2009, the Company s cooperative advertising reimbursements received were not in excess of the costs incurred.

Environmental Costs

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

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Note 1
Summary of Significant Accounting Policies, Continued

Earnings Per Common Share

Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities to issue common stock were exercised or converted to common stock (see Note 10).

Other Comprehensive Income

SFAS No. 130, Reporting Comprehensive Income, requires, among other things, the Company s pension liability adjustment, postretirement liability adjustment, unrealized gains or losses on foreign currency forward contracts and foreign currency translation adjustments to be included in other comprehensive income net of tax. Accumulated other comprehensive loss at May 2, 2009 consisted of $30.0 million of cumulative pension liability adjustments, net of tax, a cumulative net loss of $0.1 million on foreign currency forward contracts, net of tax, and a foreign currency translation adjustment of $0.3 million.

Business Segments

SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, requires that companies disclose operating segments based on the way management disaggregates the Company s operations for making internal operating decisions (see Note 12).

Derivative Instruments and Hedging Activities

SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, SFAS No. 137, Accounting for Derivative Instruments and Hedging Activities Deferral of the Effective Date of SFAS No. 133, SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities and SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities, (collectively SFAS No. 133) require an entity to recognize all derivatives as either assets or liabilities in the condensed consolidated balance sheet and to measure those instruments at fair value. Under certain conditions, a derivative may be specifically designated as a fair value hedge or a cash flow hedge. The accounting for changes in the fair value of a derivative are recorded each period in current earnings or in other comprehensive income depending on the intended use of the derivative and the resulting designation. In the past, the Company has entered into 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 contracts outstanding at May 2, 2009 and January 31, 2009.

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Genesco Inc.
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Note 1
Summary of Significant Accounting Policies, Continued

New Accounting Principles

The Company adopted SFAS No. 157, Fair Value Measurements, (SFAS No. 157) as of February 3, 2008, with the exception of the application of the statement to non-recurring, nonfinancial assets and liabilities. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. In February 2008, the FASB issued FASB Staff Position No. 157-b, Effective Date of FASB Statement No. 157, (FSP 157-b). FSP 157-b amended SFAS No. 157, to delay the effective date for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (that is, at least annually). The Company adopted FSP 157-b as of February 1, 2009. The adoption of SFAS No. 157 did not have a material impact on the Company s results of operations or financial position. See Note 7 for additional information.

In December 2008, the FASB issued FSP FAS No. 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets (FSP FAS No. 132(R)-1) which amends SFAS No. 132 (revised 2003) Employers Disclosures about Pensions and Other Postretirement Benefits an Amendment of FASB Statements No. 87, 88, and 106. FSP FAS No. 132(R)-1 requires more detailed disclosures about the assets of a defined benefit pension or other postretirement plan and is effective for fiscal years ending after December 15, 2009 (Fiscal 2010 for the Company). The Company is in the process of evaluating FSP FAS No. 132(R)-1 and does not expect it will have a significant impact on its results of operations or financial position.

In April 2009, the FASB issued FSP FAS No. 107-1 and APB Opinion No. 28-1 (FSP FAS No. 107-1 and APB No. 28-1), Interim Disclosures about Fair Value of Financial Instruments, which amends SFAS No. 107, Disclosures about Fair Value of Financial Instruments, and requires disclosures about the fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. FSP FAS No. 107-1 and APB No. 28-1 also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. FSP FAS No. 107-1 and APB No. 28-1 is effective for interim reporting periods ending after June 15, 2009 (second quarter ended August 1, 2009 for the Company). FSP FAS No. 107-1 and APB No. 28-1 does not require disclosures for earlier periods presented for comparative purposes at initial adoption, and, in periods after initial adoption, comparative disclosures are only required for periods ending after initial adoption. The Company is in the process of evaluating FSP FAS No. 107-1 and APB No. 28-1 and does not expect it will have a significant impact on its results of operations or financial position.

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Note 2

Change in Method of Accounting for Convertible Subordinated Debentures

In May 2008, the FASB issued FSP APB 14-1, Accounting for Convertible Debt Instruments That May be Settled in Cash Upon Conversion, (including partial cash settlement) (FSP APB 14-1). FSP APB 14-1 requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer s nonconvertible debt borrowing rate. The Company adopted FSP APB 14-1 as of February 1, 2009. The value assigned to the debt component is the estimated fair value, as of the issuance date, of a similar debt instrument without the conversion feature, and the difference between the proceeds for the convertible debt and the amount reflected as a debt liability is then recorded as additional paid-in capital. As a result, the debt is effectively recorded at a discount reflecting its below market coupon interest rate. The debt is subsequently accreted to its par value over its expected life, with the rate of interest that reflects the market rate at issuance being reflected in the Condensed Consolidated Statements of Earnings.

Upon adoption of FSP APB 14-1, the Company measured the fair value of the Company s $86.2 million 4 1/8% Convertible Subordinated Debentures issued in June 2003, using an interest rate that the Company could have obtained at the date of issuance for similar debt instruments. Based on this analysis, the Company determined that the fair value of the debentures was approximately $66.6 million as of the issuance date, a reduction of approximately $19.6 million in the carrying value of the debentures, of which $11.5 million was recorded as additional paid-in capital, $7.4 million was recorded as a deferred tax liability and $0.7 million as a reduction to deferred note expense. In accordance with FSP APB 14-1, the Company is required to allocate a portion of the $2.9 million of debt issuance costs that were directly related to the issuance of the debentures between a liability component and an equity component as of the issuance date. Based on this analysis, the Company reclassified approximately $0.7 million from deferred note expense as discussed above.

The retroactive application of FSP APB 14-1 resulted in the recognition of additional pretax non-cash interest expense for the three months ended May 3, 2008 of $0.7 million.

The following table sets forth the effect of the retrospective application of FSP APB 14-1 on certain previously reported line items:

	Three Months ended May 3, 2008		
In thousands	**As Previously Reported**	**Adjustment**	**As Adjusted**
Condensed Consolidated Statement of Earnings:			
Interest expense	$ 2,458	$ 742	$ 3,200
Income taxes	71,092	(290)	70,802
Net earnings	129,799	(452)	129,347

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Genesco Inc.
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Note 2
Change in Method of Accounting for Convertible Subordinated Debentures, Continued

In thousands	January 31, 2009 As Previously Reported	January 31, 2009 Adjustment	January 31, 2009 As Adjusted	May 3, 2008 As Previously Reported	May 3, 2008 Adjustment	May 3, 2008 As Adjusted
Condensed Consolidated Balance Sheets:						
Noncurrent deferred income taxes	$ 7,132	$ (1,830)	$ 5,302	$ 2,748	$ (2,728)	$ 20
Other noncurrent assets	7,584	(134)	7,450	9,856	(206)	9,650
Total Assets	818,027	(1,964)	816,063	823,815	(2,934)	820,881
Long-term debt	118,520	(4,785)	113,735	86,220	(7,183)	79,037
Total Liabilities	371,093	(4,785)	366,308	390,610	(7,183)	383,427
Additional paid-in capital	38,230	11,550	49,780	32,392	11,551	43,943
Retained earnings	432,324	(8,729)	423,595	409,705	(7,302)	402,403
Total Shareholders Equity	446,934	2,821	449,755	433,205	4,249	437,454
Total Liabilities and Shareholders Equity	818,027	(1,964)	816,063	823,815	(2,934)	820,881

The amount of interest expense recognized and the effective interest rate for the Company s convertible debentures were as follows:

(in thousands)	Three Months Ended May 2, 2009	Three Months Ended May 3 2008
Contractual coupon interest	**$ 889**	$ 889
Amortization of discount on convertible debentures	**833**	766
Interest expense	**$ 1,722**	$ 1,655
Effective interest rate	**8.5%**	8.5%

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Note 3
Terminated Merger Agreement

The Company announced in June 2007 that the boards of directors of both Genesco and The Finish Line, Inc. had unanimously approved a definitive merger agreement under which The Finish Line would acquire all of the outstanding common shares of Genesco at $54.50 per share in cash (the Proposed Merger). The Finish Line refused to close the Proposed Merger and litigation ensued. The Proposed Merger and related agreement were terminated in March 2008 in connection with an agreement to settle the litigation with The Finish Line and UBS Loan Finance LLC and UBS Securities LLC (collectively, UBS) for a cash payment of $175.0 million to the Company and a 12% equity stake in The Finish Line, which the Company received in the first quarter of Fiscal 2009. The Company distributed the 12% equity stake, or 6,518,971 shares of Class A Common Stock of The Finish Line, Inc., on June 13, 2008, to its common shareholders of record on May 30, 2008, as required by the settlement agreement. During the three months ended May 3, 2008, the Company expensed $7.2 million in merger-related litigation costs.

Note 4
Acquisition
Impact Sports Acquisition

In the fourth quarter of Fiscal 2009, Hat World acquired the assets of Impact Sports, a dealer of branded athletic and team products for college and high school teams, for a purchase price of $5.1 million plus assumed debt of $1.3 million funded from borrowings under the Credit Facility with $0.8 million withheld until satisfaction of certain closing contingencies which were met in June 2009 and the remaining payment was made. The Company allocated $4.1 million of the purchase price to goodwill. Finite-lived intangibles include $1.0 million for customer relationships and $0.2 million for non-compete agreements. The goodwill related to Impact Sports is deductible for tax purposes.

Note 5
Restructuring and Other Charges and Discontinued Operations

Restructuring and Other Charges

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

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

The Company recorded a pretax charge to earnings of $5.0 million in the first quarter of Fiscal 2010, including $4.5 million in asset impairments, $0.4 million for other legal matters and $0.1 million for lease terminations. The Company recorded a pretax charge to earnings of $2.2 million in the first quarter of Fiscal 2009, including $1.2 million in asset impairments, $0.7 million relating to a litigation settlement and $0.3 million for lease terminations.

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Note 5
Restructuring and Other Charges and Discontinued Operations, Continued

Discontinued Operations

Accrued Provision for Discontinued Operations

In thousands	**Facility Shutdown Costs**
Balance February 2, 2008	$ 7,494
Additional provision Fiscal 2009	9,006
Charges and adjustments, net	(932)
Balance January 31, 2009	15,568
Additional provision Fiscal 2010	262
Charges and adjustments, net	(161)
Balance May 2, 2009*	15,669
Current provision for discontinued operations	9,545
Total Noncurrent Provision for Discontinued Operations	**$ 6,124**

* Includes a $16.1 million environmental provision, including $10.0 million in current provision, for discontinued operations.

Note 6
Inventories

In thousands	**May 2, 2009**	January 31, 2009
Raw materials	**$ 2,320**	$ 2,059
Wholesale finished goods	**27,157**	44,155
Retail merchandise	**269,256**	259,864
Total Inventories	**$ 298,733**	$ 306,078

Note 7
Fair Value

The Company adopted SFAS No. 157 as of February 3, 2008, with the exception of the application of the statement to non-recurring, nonfinancial assets and liabilities. The adoption of SFAS No. 157 did not have a material impact on the Company s results of operations or financial position. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. In February 2008, the FASB issued FSP 157-b. FSP 157-b amended SFAS No. 157, to delay the effective date for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (that is, at least annually). The Company adopted FSP 157-b as of February 1, 2009.

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Note 7
Fair Value, Continued

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

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

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

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

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

The following table presents the Company s assets and liabilities measured at fair value on a nonrecurring basis during the three months ended May 2, 2009 aggregated by the level in the fair value hierarchy within which those measurements fall (in thousands):

	Three Months Ended May 2, 2009	Level 1	Level 2	Level 3	Total Losses
Long-lived assets held and used	$1,114	$	$	$1,114	$4,467

In accordance with SFAS No. 144, the Company recorded $4.5 million of impairment charges as a result of the fair value measurement of its long-lived assets held and used on a nonrecurring basis during the three months ended May 2, 2009. These charges are reflected in restructuring and other, net on the Condensed Consolidated Statements of Earnings.

The Company used a discounted cash flow model to estimate the fair value of these long-lived assets at May 2, 2009. 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.

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Note 8
Long-Term Debt

In thousands	May 2, 2009	January 31, 2009
4 1/8% convertible subordinated debentures due June 2023	**$ 29,815**	$ 86,220
Debt discount on 4 1/8% convertible subordinated debentures*	**(1,367)**	(4,785)
Revolver borrowings	**23,200**	32,300
Total long-term debt	**51,648**	113,735
Current portion	**-0-**	-0-
Total Noncurrent Portion of Long-Term Debt	**$ 51,648**	$ 113,735

* Remaining recognition period of 13.5 months as of May 2, 2009.

Long-term debt maturing during each of the next five years ending January is as follows: 2010 - $-0-; 2011 $-0-; 2012 $23,200,000; 2013 $-0-, 2014 $-0-, and thereafter $29,815,000.

Credit Facility:

On December 1, 2006, the Company entered into an Amended and Restated Credit Agreement (the Credit Facility) 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. The Credit Facility expires December 1, 2011. The Credit Facility replaced the Company s $105.0 million revolving credit facility.

Deferred financing costs incurred of $1.2 million related to the Credit Facility were capitalized and are being amortized over four years. These costs are included in other non-current assets on the Condensed Consolidated Balance Sheets.

The Company had $23.2 million of revolver borrowings outstanding under the Credit Facility at May 2, 2009. The Company had outstanding letters of credit of $13.1 million under the facility at May 2, 2009. These letters of credit support product purchases and lease and insurance indemnifications.

The material terms of the Credit Facility are as follows:

Availability

The Credit Facility is a revolving credit facility in the aggregate principal amount of $200.0 million, with a $20.0 million swingline loan sublimit and a $70.0 million sublimit for the issuance of standby letters of credit, and has a five-year term. Any swingline loans and letters of credit 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 $100.0 million (in increments no less than $25.0 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 Restated Credit Agreement shall at no time exceed the lesser of the facility amount ($200.0 million or, if increased at the Company s option, up to $300.0 million) or the Borrowing Base , which generally is based on 85% of eligible inventory plus 85% of eligible accounts receivable less applicable reserves.

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Note 8
Long-Term Debt, Continued

Collateral

The loans and other obligations under the Credit Facility are secured by substantially all of the presently owned and hereafter acquired non-real estate assets of the Company and certain subsidiaries of the Company.

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 either:

- a base rate generally defined as the sum of the prime rate of Bank of America, N.A. and an applicable margin.

- a LIBO rate generally defined as the sum of LIBOR (as quoted on the British Banking Association Telerate Page 3750) and an applicable margin.

The initial applicable margin for base rate loans was 0.00%, and the initial applicable margin for LIBOR loans was 1.00%. Thereafter, the applicable margin will be subject to adjustment based on Excess Availability for the prior quarter. As of May 2, 2009, the margin for LIBOR loans was 0.75%. The term Excess Availability means, as of any given date, the excess (if any) of 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 at the end of each interest rate period (but not less often than quarterly) for LIBOR loans.

The Company is also required to pay a commitment fee on the difference between committed amounts and the aggregate amount (including the aggregate amount of letters of credit) of the credit extensions outstanding under the Credit Facility, which initially was 0.25% per annum, subject to adjustment in the same manner as the applicable margins for interest rates.

Certain Covenants

The Company is not required to comply with any financial covenants unless Adjusted Excess Availability is less than 10% of the total commitments under the Credit Facility (currently $20.0 million). The term Adjusted Excess Availability means, as of any given date, the excess (if any) of (a) the lesser of the total commitments under the Credit Facility and the Borrowing Base over (b) the outstanding credit extensions under the Credit Facility. If and during such time as Adjusted Excess Availability is less than such amount, the Credit Facility requires the Company to meet a minimum fixed charge coverage ratio (EBITDA less capital expenditures less cash taxes divided by cash interest expense and scheduled payments of principal indebtedness) of 1.00 to 1.00. Because Adjusted Excess Availability exceeded $20.0 million, the Company was not required to comply with this financial covenant at May 2, 2009.

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Note 8

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.

Cash Dominion

The Credit Facility also contains cash dominion provisions that apply in the event that the Company s Adjusted Excess Availability fails to meet certain thresholds 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, 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.

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 are 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 occur or (3) if the trading price for the Debentures falls below certain thresholds. The Company s common stock did not close at or above $24.07 for at least 10 of the last 30 trading days of the first quarter of Fiscal 2010. Therefore, the contingency was not satisfied. Upon conversion, the Company will 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 is 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.

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Note 8
Long-Term Debt, Continued

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. As a result of the exchange, the Company recognized a loss on the early retirement of debt of $5.1 million reflected on the Condensed Consolidated Statements of Earnings. After the exchange, $29.8 million aggregate principal amount of Debentures remain outstanding. The Company s $29.8 million Debentures were reduced by a debt discount of $1.4 million as of May 2, 2009. The Company s $86.2 million Debentures were reduced by a debt discount of $4.8 million as of January 31, 2009. The Debentures are classified as long-term debt as of May 2, 2009 and January 31, 2009, since the earliest that the redemption and repurchase features can occur are in June 2010. The Company adopted the provisions of FSP APB 14-1 for its Debentures as of February 1, 2009. The impact of the adoption of FSP APB 14-1 is discussed in more detail in Note 2.

The Company pays cash interest on the debentures at an annual rate of 4.125% of the principal amount at issuance, payable on June 15 and December 15 of each year, commencing on December 15, 2003. The Company will pay contingent interest (in the amounts set forth in the Debentures) to holders of the Debentures during any six-month period from and including an interest payment date to, but excluding, the next interest payment date, commencing with the six-month period ending December 15, 2008, if the average trading price of the Debentures for the five consecutive trading day measurement period immediately preceding the applicable six-month period equals 120% or more of the principal amount of the Debentures. This contingency was satisfied during the six-month period ended December 15, 2008. As a result, the Company paid $0.1 million in contingent interest on December 15, 2008. No contingent interest will be paid with the June 15, 2009 interest payment.

The Company may redeem some or all of the Debentures for cash at any time on or after June 20, 2008 at 100% of their principal amount, plus accrued and unpaid interest, contingent interest and liquidated damages, if any.

Each holder of the Debentures may require the Company to purchase all or a portion of the holder s Debentures on June 15, 2010, 2013 or 2018, at a price equal to the principal amount of the Debentures to be purchased, plus accrued and unpaid interest, contingent interest and liquidated damages, if any, to the purchase date. Each holder may also require the Company to repurchase all or a portion of such holder s Debentures upon the occurrence of a change of control (as defined in the Debentures). The Company may choose to pay the change of control purchase price in cash or shares of its common stock or a combination of cash and shares.

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Note 8
Long-Term Debt, Continued

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 FSP APB 14-1, $0.7 million was reclassified from deferred note expense to additional paid-in capital. The remaining balance of the deferred note expense is being amortized until June 2010 and is included in other noncurrent assets on the Condensed Consolidated Balance Sheets.

The indenture pursuant to which the Debentures were issued does not restrict the incurrence of senior debt by the Company or other indebtedness or liabilities by the Company or any of its subsidiaries.

Note 9
Defined Benefit Pension Plans and Other Benefit Plans

Components of Net Periodic Benefit Cost

	Pension Benefits		Other Benefits	
	Three Months Ended		Three Months Ended	
In thousands	**May 2, 2009**	May 3, 2008	**May 2, 2009**	May 3, 2008
Service cost	**$ 63**	$ 63	**$ 37**	$ 33
Interest cost	**1,636**	1,595	**44**	41
Expected return on plan assets	**(2,092)**	(2,128)	**-0-**	-0-
Amortization:				
Prior service cost	**1**	2	**-0-**	-0-
Losses	**598**	823	**17**	20
Net amortization	**599**	825	**17**	20
Net Periodic Benefit Cost	**$ 206**	$ 355	**$ 98**	$ 94

While there was no cash requirement for the Plan in 2009, the Company made a $4.0 million contribution to the Plan in February 2009.

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Note 10
(Loss) Earnings Per Share

(In thousands, except per share amounts)	For the Three Months Ended May 2, 2009 Income (Numerator)	Shares (Denominator)	Per-Share Amount	For the Three Months Ended May 3, 2008 Income (Numerator)	Shares (Denominator)	Per-Share Amount
(Loss) earnings from continuing operations	**$ (5,603)**			$ 129,440		
Less: Preferred stock dividends	**(50)**			(49)		
Basic EPS						
Income available to common shareholders	**(5,653)**	**18,852**	**$ (.30)**	129,391	21,050	$ 6.15
Effect of Dilutive Securities						
Options		**-0-**			310	
Convertible preferred stock[1]	**-0-**	**-0-**		38	59	
4 1/8% Convertible Subordinated Debentures[2]	**-0-**	**-0-**		1,056	3,898	
Employees preferred stock[3]		**-0-**			54	
Diluted EPS						
Income available to common shareholders plus assumed conversions	**$ (5,653)**	**18,852**	**$ (.30)**	$ 130,485	25,371	$ 5.14

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

ended May 2, 2009 due to the loss from continuing operations. Therefore, conversion of the convertible preferred stock was not reflected in diluted earnings per share, because it would have been antidilutive. The amount of the dividend on the convertible preferred stock per common share obtainable on the conversion of the convertible preferred stock was less than basic earnings per share for the three months ended May 3, 2008. Therefore, conversion of Series 1, 3 and 4 preferred shares were included in diluted earnings per share for the first quarter of Fiscal 2009. The shares convertible to common stock for Series 1, 3 and 4 preferred stock would have been 27,915, 25,949 and 5,423, respectively, as

of May 2, 2009.

(2) The amount of the interest on the convertible subordinated debentures for the three months ended May 2, 2009 per common share obtainable on conversion is higher than basic earnings per share, therefore the convertible debentures are not reflected in diluted earnings per share for the three months ended May 2, 2009 because it would have been antidilutive.

(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 for the first quarter ended May 3, 2008, but not in the first quarter ended May 2, 2009 due to the

loss from continuing operations.

The Company did not repurchase any shares during the first quarter ended May 2, 2009. In March 2008, the board authorized up to $100.0 million in stock repurchases primarily funded with the after-tax cash proceeds of the settlement of merger-related litigation with The Finish Line and UBS (see Note 3). The Company repurchased 4.0 million shares at a cost of $90.9 million during the three months ended May 3, 2008 of which $2.5 million was not paid in the quarter but included in other accrued liabilities on the Condensed Consolidated Balance Sheets.

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Note 11
Legal Proceedings
Environmental Matters

New York State Environmental Matters

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

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Note 11
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, 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.

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

Whitehall Environmental Matters

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

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Note 11
Legal Proceedings, Continued

The Company has submitted to the Michigan Department of Environmental Quality (MDEQ) and provided for certain costs associated with a remedial action plan (the Plan) designed to bring the property into compliance with regulatory standards for non-industrial uses and has subsequently engaged in negotiations regarding the scope of the Plan. The Company estimates that the costs of resolving environmental contingencies related to the Whitehall property range from $4.0 million to $4.5 million, and considers the cost of implementing the Plan, as it is modified in the course of negotiations with the MDEQ, to be the most likely cost within that range. Until the Plan is finally approved by the MDEQ, management cannot provide assurances that no further remediation will be required or that its estimate of the range of possible costs or of the most likely cost of remediation will prove accurate.

Accrual for Environmental Contingencies

Related to all outstanding environmental contingencies, the Company had accrued $16.1 million as of May 2, 2009, $16.0 million as of January 31, 2009 and $7.7 million as of May 3, 2008. All such provisions reflect the Company s estimates of the most likely cost (undiscounted, including both current and noncurrent portions) of resolving the contingencies, based on facts and circumstances as of the time they were made. There is no assurance that relevant facts and circumstances will not change, necessitating future changes to the provisions. Such contingent liabilities are included in the liability arising from provision for discontinued operations on the accompanying Condensed Consolidated Balance Sheets. The Company has made pretax accruals for certain of these contingencies, including approximately $0.4 million reflected in the first quarter of Fiscal 2010 and $0.2 million reflected in the first quarter of Fiscal 2009. These charges are included in provision for discontinued operations, net in the Condensed Consolidated Statements of Earnings.

California Matters

On November 4, 2005, a former employee gave notice to the California Labor Work Force Development Agency (LWDA) of a claim against the Company for allegedly failing to provide a payroll check that is negotiable and payable in cash, on demand, without discount, at an established place of business in California, as required by the California Labor Code. On May 18, 2006, the same claimant filed a putative class, representative and private attorney general action alleging the same violations of the Labor Code in the Superior Court of California, Alameda County, seeking statutory penalties, damages, restitution, and injunctive relief. On February 21, 2007, the court granted leave for the plaintiff to file an amended complaint adding the Company s wholly-owned subsidiary, Hat World, Inc., as a defendant. On April 15, 2008, the parties reached an agreement to settle the action pursuant to which the Company paid approximately $700,000 to settle the matter.

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Note 11
Legal Proceedings, Continued

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

On June 16, 2008, there was filed in the Superior Court of the State of California, County of Shasta, a putative class action styled *Jacobs v. Genesco Inc. et al*., alleging violations of the California Labor Code involving payment of wages, failure to provide mandatory meal and rest breaks, and unfair competition, and seeking back pay, penalties and declaratory and injunctive relief. The Company has removed the case to the Federal District Court for the Eastern District of California. On September 3, 2008, the court dismissed certain of the plaintiff s claims, including claims for conversion and punitive damages. On May 5, 2009, the Company and the plaintiff s counsel reached an agreement in principle to settle the lawsuit on a claims made basis. The minimum payment by the Company pursuant to the agreement, which remains subject to court approval, is $398,000; the maximum is $703,000.

Patent Action

The Company is named as a defendant in *Paul Ware and Financial Systems Innovation, L.L.C. v. Abercrombie & Fitch Stores, Inc., et al.,* filed on June 19, 2007, in the United States District Court for the Northern District of Georgia, against more than 100 retailers. The suit alleges that the defendants have infringed U.S. Patent No. 4,707,592 by using a feature of their retail point of sale registers to generate transaction numbers for credit card purchases. The complaint seeks treble damages in an unspecified amount and attorneys fees. The Company has filed an answer denying the substantive allegations in the complaint and asserting certain affirmative defenses. On December 14, 2007, the Company filed a third-party complaint against Datavantage Corporation and MICROS Systems, Inc., its vendor for the technology at issue in the case, seeking indemnification and defense against the infringement allegations in the complaint. On December 27, 2007, the court stayed proceedings in the litigation pending the outcome of a reexamination of the patent by the U. S. Patent and Trademark Office. On September 15, 2008, the patent examiner issued a first Office Action rejecting all of the claims in the patent as being unpatentable over the prior art. On January 21, 2009, the examiner issued a final office action again rejecting all of the claims in the patent. In April 2009, the examiner issued a Notice of Intent to Issue an Ex Parte Reexamination Certificate for the patent. The litigation is likely to proceed once the Reexamination Certificate is issued.

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Note 12
Business Segment Information

The Company operates five reportable business segments (not including corporate): Journeys Group, comprised of the Journeys, Journeys Kidz and Shi by Journeys retail footwear chains, catalog and e-commerce operations; Underground Station Group, comprised of the Underground Station retail footwear chain and e-commerce operations and the remaining Jarman retail footwear stores; Hat World Group, comprised of the Hat World, Lids, Hat Shack, Hat Zone, Head Quarters, Cap Connection and Lids Locker Room retail headwear stores, e-commerce operations and the Impact Sports team dealer business acquired in November 2008; Johnston & Murphy Group, comprised of Johnston & Murphy retail operations, catalog and e-commerce operations and wholesale distribution; and Licensed Brands, comprised primarily of Dockers® Footwear sourced and marketed under a license from Levi Strauss & Company.

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

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

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

Three Months Ended May 2, 2009 In thousands	**Journeys Group**	**Underground Station Group**	**Hat World Group**	**Johnston & Murphy Group**	**Licensed Brands**	**Corporate & Other**	**Consolidated**
Sales	**$ 176,847**	**$ 26,728**	**$ 98,804**	**$ 39,330**	**$ 28,559**	**$ 106**	**$ 370,374**
Intercompany sales	**-0-**	**-0-**	**-0-**	**-0-**	**(8)**	**-0-**	**(8)**
Net sales to external customers	**$ 176,847**	**$ 26,728**	**$ 98,804**	**$ 39,330**	**$ 28,551**	**$ 106**	**$ 370,366**
Segment operating income (loss)	**$ 5,513**	**$ (450)**	**$ 6,524**	**$ 157**	**$ 3,617**	**$ (7,508)**	**$ 7,853**
Restructuring and other*	**-0-**	**-0-**	**-0-**	**-0-**	**-0-**	**(4,973)**	**(4,973)**
Earnings (loss) from operations	**5,513**	**(450)**	**6,524**	**157**	**3,617**	**(12,481)**	**2,880**
Loss on early retirement of debt	**-0-**	**-0-**	**-0-**	**-0-**	**-0-**	**(5,119)**	**(5,119)**
Interest expense	**-0-**	**-0-**	**-0-**	**-0-**	**-0-**	**(3,091)**	**(3,091)**
Interest income	**-0-**	**-0-**	**-0-**	**-0-**	**-0-**	**8**	**8**
	$ 5,513	**$ (450)**	**$ 6,524**	**$ 157**	**$ 3,617**	**$ (20,683)**	**$ (5,322)**

Earnings (loss) before income taxes from continuing operations

Total assets**	**$ 239,976**	**$ 34,274**	**$ 315,097**	**$ 79,701**	**$ 26,489**	**$ 119,576**	**$ 815,113**
Depreciation	**5,939**	**728**	**3,337**	**949**	**14**	**1,161**	**12,128**
Capital expenditures	**5,701**	**24**	**3,240**	**1,871**	**7**	**165**	**11,008**

* Restructuring and other includes a $4.5 million charge for asset impairments, of which $3.6 million is in the Journeys Group, $0.6 million in the Underground Station Group, $0.2 million in the Johnston & Murphy Group and $0.1 million in the Hat World Group.

** Total assets for the Hat World Group include $111.7 million goodwill.

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Note 12
Business Segment Information, Continued

Three Months Ended	**Underground**			**Johnston**			
May 3, 2008 In thousands	**Journeys Group**	**Station Group**	**Hat World Group**	**& Murphy Group**	**Licensed Brands**	**Corporate & Other**	**Consolidated**
Sales	$ 168,762	$ 29,004	$ 87,737	$ 46,571	$ 24,733	$ 113	$ 356,920
Intercompany sales	-0-	-0-	-0-	-0-	15	-0-	15
Net sales to external customers	$ 168,762	$ 29,004	$ 87,737	$ 46,571	$ 24,748	$ 113	$ 356,935
Segment operating income (loss)	$ 5,298	$ (981)	$ 3,725	$ 3,683	$ 3,555	$ (13,931)	$ 1,349
Gain from settlement of merger- related litigation	-0-	-0-	-0-	-0-	-0-	204,075	204,075
Restructuring and other*	-0-	-0-	-0-	-0-	-0-	(2,237)	(2,237)
Earnings (loss) from operations	5,298	(981)	3,725	3,683	3,555	187,907	203,187
Interest expense	-0-	-0-	-0-	-0-	-0-	(3,200)	(3,200)
Interest income	-0-	-0-	-0-	-0-	-0-	255	255
Earnings (loss) before income taxes from continuing operations	$ 5,298	$ (981)	$ 3,725	$ 3,683	$ 3,555	$ 184,962	$ 200,242
Total assets	$ 243,733	$ 43,856	$ 303,216	$ 71,925	$ 28,610	$ 129,541	$ 820,881
Depreciation	5,114	861	3,517	794	17	1,357	11,660
Capital expenditures	8,362	139	5,389	2,734	20	323	16,967

* Restructuring and other includes a $1.2 million charge for asset impairments, of which $0.5 million is in the Journeys Group, $0.3 million in

the Hat World Group, $0.3 million in the Johnston & Murphy Group and $0.1 million in the Underground Station Group.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations
Forward Looking Statements

This discussion and the notes to the Condensed Consolidated Financial Statements include certain forward-looking statements, including those regarding the performance outlook for the Company and its individual businesses and all other statements not addressing solely historical facts or present conditions. Actual results could differ materially from those reflected by the forward-looking statements in this discussion, in the notes to the Condensed Consolidated Financial Statements, and in other disclosures, including those regarding the Company s performance outlook for Fiscal 2010.

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

- Continuing weakness in the consumer economy and disruptions in the financial markets affecting the ability or willingness of the consumer to purchase the Company s products.

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

- Disruptions in product supply or distribution.

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

- Competition in the Company s markets and changes in the timing of holidays (including tax-free holidays), or in the onset of seasonal weather affecting period-to-period sales comparisons.

- The Company s ability to build, open, staff and support additional retail stores on schedule and at acceptable expense levels and to renew leases in existing stores and to conduct required remodeling or refurbishment on schedule and at acceptable expense levels.

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

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

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

- The outcome of litigation, investigations and environmental matters involving the Company, including but not limited to the matters discussed in Note 11 to the Condensed Consolidated Financial Statements.

In addition to the risks referenced above, additional risks are highlighted in the Company s Annual Report on Form 10-K for the year ended January 31, 2009. Forward-looking statements reflect the expectations of the Company at the time they are made, and investors should rely on them only as expressions of opinion about what may happen in the future and only at the time they are made. The Company undertakes no obligation to update any forward-looking statement. Although the Company believes it has an appropriate business strategy and the resources necessary for its

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operations, predictions about future revenue and margin trends are inherently uncertain and the Company may alter its business strategies to address changing conditions.

Overview

Description of Business

The Company is a leading retailer of branded footwear and of licensed and branded headwear, operating 2,236 retail footwear and headwear stores throughout the United States and, in Puerto Rico and Canada as of May 2, 2009. The Company also designs, sources, markets and distributes footwear under its own Johnston & Murphy brand and under the licensed Dockers® brand to more than 1,025 retail accounts in the United States, including a number of leading department, discount, and specialty stores.

The Company operates five reportable business segments (not including corporate): Journeys Group, comprised of the Journeys, Journeys Kidz and Shi by Journeys retail footwear chains, catalog and e-commerce operations; Underground Station Group, comprised of the Underground Station retail footwear chain and e-commerce operations and the Company s remaining Jarman retail footwear stores; Hat World Group, comprised primarily of the Hat World, Lids, Hat Shack, Hat Zone, Head Quarters, Cap Connection and Lids Locker Room retail headwear stores, e-commerce operations and the Impact Sports team dealer business acquired in November 2008; Johnston & Murphy Group, comprised of Johnston & Murphy retail operations, catalog and e-commerce operations and wholesale distribution; and Licensed Brands, comprised primarily of Dockers® Footwear, sourced and marketed under a license from Levi Strauss & Company.

The Journeys retail footwear stores sell footwear and accessories primarily for 13 to 22 year old men and women. The stores average approximately 1,925 square feet. The Journeys Kidz retail footwear stores sell footwear primarily for younger children, ages five to 12. These stores average approximately 1,425 square feet. Shi by Journeys retail footwear stores 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 Underground Station retail footwear stores sell footwear and accessories primarily for men and women in the 20 to 35 age group and in the urban market. The Underground Station Group stores average approximately 1,800 square feet. The Company has previously announced its intentions eventually to close the remaining Jarman stores or to convert them into Underground Station stores. The Company also plans to shorten the average lease life of the Underground Station stores, close certain underperforming 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 Hat World Group stores and kiosks sell licensed and branded headwear to men and women primarily in the early-teens to mid-20 s age group. The Hat World Group locations average approximately 775 square feet and are primarily in malls, airports, street level stores and factory outlet centers throughout the United States, and in Puerto Rico and Canada. In November 2008, the Company acquired Impact Sports, a team dealer business, as part of the Hat World Group.

Johnston & Murphy retail shops sell a broad range of men s footwear, luggage and accessories. Johnston & Murphy introduced a line of women s footwear and accessories in select Johnston & Murphy retail shops in the fall of 2008. Johnston & Murphy shops average approximately 1,450 square feet and are located primarily in better malls nationwide and in airports. Johnston & Murphy shoes are also distributed through the Company s wholesale operations to better

department and independent specialty stores. In addition, the Company sells Johnston & Murphy footwear and accessories in factory stores, averaging approximately 2,350 square feet, located in factory outlet malls, and through a direct-to-consumer catalog and e-commerce operation.

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 November 1, 2006. The Dockers license agreement, as amended, expires on December 31, 2009, with a Company option to renew through December 31, 2012, subject to certain conditions. The Company met the conditions and has given notice of its intent to renew. The Company uses the Dockers name to market casual and dress casual footwear to men aged 30 to 55 through many of the same national retail chains that carry Dockers slacks and sportswear and in department and specialty stores across the country.

Strategy

The Company s strategy has been to seek long-term, organic growth by: 1) increasing the Company s store base, 2) increasing retail square footage, 3) improving comparable store sales, 4) increasing operating margin and 5) enhancing the value of its brands. Our future results are subject to various risks, uncertainties and other challenges, including those discussed under the caption Forward Looking Statements, above and those discussed in Item 1A, Risk Factors in the Company s Annual Report on Form 10-K for the year ended January 31, 2009. Additionally, the pace of the Company s growth and the implementation of its long-term strategic plan may be negatively affected by economic conditions, and the Company has announced that it intends to slow the pace of new store openings and to focus on inventory management and cash flow until economic conditions improve. Generally, the Company attempts to develop strategies to mitigate the risks it views as material, including those discussed in Item 1A, Risk Factors.

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

Summary of Results of Operations

The Company s net sales increased 3.8% during the first quarter of Fiscal 2010 compared to Fiscal 2009. The increase was driven primarily by a 13% increase in Hat World Group sales, a 5%

increase in Journeys Group sales and a 15% increase in Licensed Brands sales, offset by a 16% decrease in Johnston & Murphy Group sales and an 8% decrease in Underground Station Group sales. Gross margin increased as a percentage of net sales during the first quarter of Fiscal 2010, primarily due to margin increases in the Journeys Group, Hat World Group and Underground Station Group offset by margin decreases in Johnston & Murphy Group and Licensed Brands. Selling and administrative expenses decreased as a percentage of net sales during the first quarter of Fiscal 2010, reflecting the comparison to substantial merger-related expenses in the first quarter of last year and decreases in selling and administrative expenses as a percentage of net sales in the Underground Station Group and Hat World Group, offset by increases as a percentage of net sales in the Journeys Group, Johnston & Murphy Group and Licensed Brands. Selling and administrative expenses during the first quarter of Fiscal 2009, included $7.2 million of merger-related expenses. Earnings from operations decreased as a percentage of net sales during the first quarter of Fiscal 2010, primarily due to the gain of $204.1 million in the first quarter last year from the settlement of merger-related litigation and to decreased earnings from operations in the Johnston & Murphy Group partially offset by an increase in earnings from operations in the Hat World Group, Journeys Group and Licensed Brands as well as a smaller loss in the Underground Station Group.

Significant Developments

Change in Method of Accounting for Convertible Subordinated Debentures

In May 2008, the FASB issued FSP APB 14-1, which requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer s nonconvertible debt borrowing rate. The Company adopted FSP APB 14-1 as of February 1, 2009. The value assigned to the debt component is the estimated fair value, as of the issuance date, of a similar debt instrument without the conversion feature, and the difference between the proceeds for the convertible debt and the amount reflected as a debt liability is then recorded as additional paid-in capital. As a result, the debt is effectively recorded at a discount reflecting its below market coupon interest rate. The debt is subsequently accreted to its par value over its expected life, with the rate of interest that reflects the market rate at issuance being reflected in the Condensed Consolidated Statements of Earnings. As a result, the Company has applied FSP APB 14-1 retrospectively to its Condensed Consolidated Financial Statements, as required. The retroactive application of FSP APB 14-1 resulted in the recognition of additional pretax non-cash interest expense for the three months ended May 3, 2008 of $0.7 million. For additional information, see Note 2 to the Condensed 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 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. As a result of the exchange, the Company recognized a loss on the early retirement of debt of $5.1 million reflected on the Condensed Consolidated Statements of Earnings. After the exchange, $29.8 million aggregate principal amount of Debentures remain outstanding. For additional information on the conversion of the 4 1/8% Debentures, see Note 8 to the Condensed Consolidated Financial Statements.

Impact Sports Acquisition

In the fourth quarter of Fiscal 2009, Hat World acquired the assets of Impact Sports, a dealer of branded athletic and team products for college and high school teams, for a purchase price of $5.1 million plus assumed debt of $1.3 million funded from borrowings under the Credit Facility.

Terminated Merger Agreement

The Company announced in June 2007 that the boards of directors of both Genesco and The Finish Line, Inc. had unanimously approved a definitive merger agreement under which The Finish Line would acquire all of the outstanding common shares of Genesco at $54.50 per share in cash (the Proposed Merger). The Finish Line refused to close the Proposed Merger and litigation ensued. The Proposed Merger and related agreement were terminated in March 2008 in connection with an agreement to settle the litigation with The Finish Line and UBS for a cash payment of $175.0 million to the Company and a 12% equity stake in The Finish Line, which the Company received in the first quarter of Fiscal 2009. The Company distributed the 12% equity stake, or 6,518,971 shares of Class A Common Stock of The Finish Line, Inc., on June 13, 2008, to its common shareholders of record on May 30, 2008, as required by the settlement agreement. During the three months ended May 3, 2008, the Company expensed $7.2 million in merger-related litigation costs.

Restructuring and Other Charges

The Company recorded a pretax charge to earnings of $5.0 million in the first quarter of Fiscal 2010, including $4.5 million in asset impairments, $0.4 million for other legal matters and $0.1 million for lease terminations. The Company recorded a pretax charge to earnings of $2.2 million in the first quarter of Fiscal 2009, including $1.2 million in asset impairments, $0.7 million relating to a litigation settlement and $0.3 million for lease terminations.

Comparable Store Sales

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

Results of Operations First Quarter Fiscal 2010 Compared to Fiscal 2009

The Company s net sales in the first quarter ended May 2, 2009 increased 3.8% to $370.4 million from $356.9 million in the first quarter ended May 3, 2008. Gross margin increased 4.3% to $189.2 million in the first quarter this year from $181.4 million in the same period last year and increased as a percentage of net sales from 50.8% to 51.1%. Selling and administrative expenses in the first quarter this year increased 0.7% from the first quarter last year but decreased as a percentage of net sales from 50.4% to 49.0%. For the first quarter ended May 3, 2008, selling and administrative expenses included $7.2 million of merger-related litigation expenses in connection with the terminated merger with The Finish Line. 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.

The loss before income taxes from continuing operations (pretax (loss) earnings) for the first quarter ended May 2, 2009 was $(5.3) million compared to pretax earnings of $200.2 million for the first quarter ended May 3, 2008. The pretax loss for the first quarter ended May 2, 2009 included a loss on the early retirement of debt of $5.1 million and restructuring and other charges of $5.0 million, primarily for retail store asset impairments, other legal matters and lease terminations. Pretax earnings for the first quarter ended May 3, 2008 included a gain of $204.1 million from the settlement of merger-related litigation with The Finish Line and UBS and restructuring and other charges of $2.2 million, primarily for retail store asset impairments, other legal matters and lease terminations.

The net loss for the first quarter ended May 2, 2009 was $(5.8) million ($0.31 diluted loss per share) compared to net earnings of $129.3 million ($5.14 diluted earnings per share) for the first quarter ended May 3, 2008. The Company recorded an effective income tax rate of (5.3)% in the first quarter this year compared to 35.4% in the same period last year. The variance in the effective tax rate for the first quarter this year compared to the first quarter last year is primarily attributable to the non-deductibility of certain items incurred in connection with the inducement of the conversion of the 4 1/8% Debentures for common stock in the first quarter this year.

Journeys Group

	Three Months Ended		
	May 2, 2009	May 3, 2008	% Change
	(dollars in thousands)		
Net sales	**$ 176,847**	$ 168,762	4.8%
Earnings from operations	**$ 5,513**	$ 5,298	4.1%
Operating margin	**3.1%**	3.1%	

Net sales from Journeys Group increased 4.8% for the first quarter ended May 2, 2009 compared to the same period last year. The increase reflects primarily a 4% increase in average Journeys stores operated (i.e., the sum of the number of stores open on the first day of the fiscal quarter and the last day of each fiscal month during the quarter divided by four) and a 3% increase in comparable store sales. Comparable store sales were impacted by an increase of 5% in average price per pair of shoes, reflecting changes in product mix, offset by a 1% decrease in footwear unit comparable sales. Unit sales increased 2% during the same period. Journeys Group operated 1,018 stores at the end of the first quarter of Fiscal 2010, including 145 Journeys Kidz stores and 55 Shi by Journeys stores, compared to 985 stores at the end of the first quarter last year, including 123 Journeys Kidz stores and 50 Shi by Journeys stores.

Journeys Group earnings from operations for the first quarter ended May 2, 2009 increased 4.1% to $5.5 million compared to $5.3 million for the first quarter ended May 3, 2008. The increase was due to increased net sales as increased gross margin as a percentage of net sales, reflecting changes in product mix and lower costs was offset by increased expenses primarily due to higher bonus accruals.

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Underground Station Group

	Three Months Ended		
	May 2, 2009	May 3, 2008	% Change
	(dollars in thousands)		
Net sales	**$ 26,728**	$ 29,004	(7.8)%
Loss from operations	**$ (450)**	$ (981)	54.1%
Operating margin	**(1.7)%**	(3.4)%	

Net sales from the Underground Station Group decreased 7.8% to $26.7 million for the first quarter ended May 2, 2009 from $29.0 million for the same period last year. The decrease reflects a 6% decrease in average Underground Station stores operated (related to the Company s strategy of closing Jarman stores and the planned closing or conversion announced in May 2007 of up to 49 Underground Station Group stores) and a 5% decrease in comparable store sales. The decrease in comparable store sales reflects flat comparable footwear unit sales and a 3% decline in the average price per pair of shoes, partially reflecting a higher percentage of women s and children s products in the mix of products sold. Unit sales decreased 3% during the same period. Underground Station Group operated 177 stores at the end of the first quarter of Fiscal 2010, including 167 Underground Station stores, compared to 190 stores at the end of the first quarter last year, including 175 Underground Station stores.

Underground Station Group loss from operations for the first quarter ended May 2, 2009 improved to $(0.5) million from $(1.0) million in the first quarter ended May 3, 2008. The improvement was primarily due to decreased expenses as a percentage of net sales, reflecting lower bonus accruals.

Hat World Group

	Three Months Ended		
	May 2, 2009	May 3, 2008	% Change
	(dollars in thousands)		
Net sales	**$ 98,804**	$ 87,737	12.6%
Earnings from operations	**$ 6,524**	$ 3,725	75.1%
Operating margin	**6.6%**	4.2%	

Net sales from Hat World Group increased 12.6% for the first quarter ended May 2, 2009 compared to the same period last year, reflecting primarily a 7% increase in comparable store sales and a 2% increase in average stores operated as well as sales from the newly acquired Impact Sports business. The comparable store sales increase reflected a 2% increase in comparable store units sold, primarily from strength in fashion-oriented Major League Baseball products and branded action headwear. Hat World Group operated 880 stores at the end of the first quarter of Fiscal 2010, including 50 stores in Canada, compared to 868 stores at the end of the first quarter last year, including 38 stores in Canada.

Hat World Group earnings from operations for the first quarter ended May 2, 2009 increased 75.1% to $6.5 million compared to $3.7 million for the first quarter ended May 3, 2008. The increase was due to increased net sales, increased gross margin as a percentage of net sales, primarily reflecting increased prices on certain products ahead of price increases from the Company s supplier, and store-related expense leverage from positive comparable store sales.

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Johnston & Murphy Group

	Three Months Ended		
	May 2, 2009	May 3, 2008	% Change
	(dollars in thousands)		
Net sales	**$ 39,330**	$ 46,571	(15.5)%
Earnings from operations	**$ 157**	$ 3,683	(95.7)%
Operating margin	**0.4%**	7.9%	

Johnston & Murphy Group net sales decreased 15.5% to $39.3 million for the first quarter ended May 2, 2009 from $46.6 million for the first quarter ended May 3, 2008, reflecting primarily an 18% decrease in comparable store sales and a 20% decrease in Johnston & Murphy wholesale sales, offset by a 1% increase in average stores operated for Johnston & Murphy retail operations. Unit sales for the Johnston & Murphy wholesale business decreased 15% in the first quarter of Fiscal 2010 and the average price per pair of shoes decreased 5% for the same period. Retail operations accounted for 72.1% of Johnston & Murphy Group segment sales in the first quarter this year, up from 70.7% in the first quarter last year. The average price per pair of shoes for Johnston & Murphy retail operations decreased 5% (9% in the Johnston & Murphy Shops) in the first quarter this year, primarily due to higher markdowns and changes in product mix, and footwear unit comparable sales decreased 16% during the same period. The store count for Johnston & Murphy retail operations at the end of the first quarter of Fiscal 2010 included 161 Johnston & Murphy shops and factory stores compared to 156 Johnston & Murphy shops and factory stores at the end of the first quarter of Fiscal 2009.

Johnston & Murphy Group earnings from operations for the first quarter ended May 2, 2009 decreased 95.7% to $0.2 million compared to $3.7 million for the same period last year, primarily due to decreased net sales, decreased gross margin as a percentage of net sales, and increased expenses as a percentage of net sales. Gross margin reflected increased markdowns and changes in product mix. Expenses reflected negative leverage from the decrease in comparable store sales.

Licensed Brands

	Three Months Ended		
	May 2, 2009	May 3, 2008	% Change
	(dollars in thousands)		
Net sales	**$ 28,551**	$ 24,748	15.4%
Earnings from operations	**$ 3,617**	$ 3,555	1.7%
Operating margin	**12.7%**	14.4%	

Licensed Brands net sales increased 15.4% to $28.6 million for the first quarter ended May 2, 2009, from $24.7 million for the first quarter ended May 3, 2008. The sales increase reflects a 14% increase in sales of Dockers Footwear and an increase in sales from a new line of footwear that the Company is sourcing under a different brand primarily for a single department store chain. Dockers sales growth was driven by seasonal product introductions and increased penetration with existing customers. The Company does not expect the growth will continue in the second quarter due to the weak first quarter performance of many of its wholesale customers. Unit sales for Dockers

Footwear increased 17% for the first quarter this year while the average price per pair of Dockers shoes decreased 3% compared to the same period last year.

Licensed Brands earnings from operations for the first quarter ended May 2, 2009 were flat at $3.6 million. The increase in net sales was offset by decreased gross margin as a percentage of net sales, reflecting increased product costs and increased sales of closeouts at lower margins while expenses increased in dollars and as a percentage of net sales, reflecting increased advertising expense.

Corporate, Interest Expenses and Other Charges

Corporate and other expense for the first quarter ended May 2, 2009 was $17.6 million compared to income of $187.9 million for the first quarter ended May 3, 2008. The corporate expense in the first quarter this year included a $5.1 million loss on the early retirement of debt and $5.0 million in restructuring and other charges, primarily for retail store asset impairments, other legal matters and lease terminations. Last year s income in the first quarter included a $204.1 million gain from the settlement of merger-related litigation offset by $2.2 million in restructuring and other charges, primarily for retail store asset impairments, a litigation settlement and lease terminations, and $7.2 million in merger-related expenses.

Interest expense decreased 3.4% from $3.2 million in the first quarter ended May 3, 2008 to $3.1 million for the first quarter ended May 2, 2009, primarily due to a decrease in average revolver borrowings from $29.7 million for the first quarter ended May 3, 2008 to $25.7 million for the first quarter this year and lower interest rates. The application of FSP APB 14-1 resulted in the recognition of additional pretax non-cash interest expense totaling $0.8 million for the first quarter ended May 2, 2009 compared to $0.7 million last year. Interest income decreased 96.9% to $8,000 from $0.3 million for the first quarter ended May 3, 2008. Last year had higher average short-term investments as a result of the proceeds from the settlement of merger-related litigation.

Liquidity and Capital Resources

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

	May 2, 2009	**January 31, 2009**	May 3, 2008
		(dollars in millions)	
Cash and cash equivalents	**$ 16.7**	$ 17.7	$ 16.5
Working capital	**$ 254.9**	$ 259.1	$ 175.6
Long-term debt	**$ 51.6**	$ 113.7	$ 79.0

Working Capital

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

Cash provided by operating activities was $23.1 million in the first three months of Fiscal 2010 compared to $183.3 million in the first three months of Fiscal 2009. The $160.2 million decrease in cash flow from operating activities from last year reflects primarily the receipt of cash proceeds from the merger-related litigation settlement in the first quarter last year. It also reflects changes in other accrued liabilities and inventory of $55.6 million and $8.3 million, respectively, offset by an increase in cash flow from changes in accounts payable of $4.6 million. The $55.6 million decrease

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in cash flow from other accrued liabilities was due to decreased accrued income taxes in the first quarter this year compared to the first quarter last year due to the gain from the merger-related litigation settlement last year. The $8.3 million decrease in cash flow from inventory reflected increased purchases in the Hat World Group to support sales. The $4.6 million increase in cash flow from accounts payable reflected changes in buying patterns and payment terms negotiated with individual vendors.

The $7.3 million decrease in inventories at May 2, 2009 from January 31, 2009 levels reflected efforts to reduce wholesale and Journeys Group inventories.

Accounts receivable at May 2, 2009 increased $4.8 million compared to January 31, 2009, due primarily to increased accounts receivable from increased Licensed Brands sales.

Cash provided (or used) due to changes in accounts payable and accrued liabilities are as follows:

	Three Months Ended	
	May 2, 2009	May 3, 2008
	(in thousands)	
Accounts payable	**$ 11,117**	$ 6,527
Accrued liabilities	**(4,592)**	51,042
	$ 6,523	$ 57,569

The difference in cash provided due to changes in accounts payable for the first quarter this year compared to the first quarter last year reflects changes in buying patterns and payment terms negotiated with individual vendors. The change in cash provided due to changes in accrued liabilities for the first quarter this year from the first quarter last year was due primarily to a $66.0 million decrease in accrued income taxes.

Revolving credit borrowings averaged $25.7 million during the three months ended May 2, 2009 and $29.7 million during the three months ended May 3, 2008 reflecting a lower level of initial revolver borrowings this year. The Company funded its seasonal working capital requirements and its capital expenditures in the first quarter through cash flow generated by operating activities.

The Company s contractual obligations over the next five years have decreased from January 31, 2009. Long-term debt decreased to $51.6 million from $113.7 million primarily as a result of converting $56.4 million aggregate principal amount of the 4 1/8% Debentures into common stock during the first quarter this year. Future interest payments on long-term debt also decreased $33.8 million as a result of the debt conversion.

Capital Expenditures

Total capital expenditures in Fiscal 2010 are expected to be up to approximately $48.6 million. These include expected retail capital expenditures of up to $43.1 million to open up to 12 Journeys stores, 10 Journeys Kidz stores, three Shi by Journeys stores, eight Johnston & Murphy shops and factory stores and 40 Hat World stores including 15 stores in Canada and to complete 122 major store renovations and installing new POS equipment in all the Journeys and Journeys Kidz retail stores. Due to current economic conditions, the Company intends to be more selective with respect to new store locations. The Company expects to open stores at a slower pace in Fiscal 2010. Capital expenditures for wholesale operations and other purposes in Fiscal 2010 are planned to be

approximately $5.5 million, including approximately $1.6 million for new systems to improve customer service and support the Company s growth.

Future Capital Needs

The Company expects that borrowings under its revolving credit facility will be required to support seasonal working capital requirements and capital expenditures during Fiscal 2010, although the Company currently forecasts cash provided by operations will be sufficient to repay borrowings under the revolving credit facility by the end of the fiscal year. The approximately $9.5 million of costs associated with discontinued operations that are expected to be incurred during the next twelve months are also expected to be funded from cash on hand, cash from operations and borrowings under the revolving credit facility. Additionally, holders of the Company s 4 1/8% Convertible Subordinated Debentures have the option to require the Company to redeem them in June 2010 (Fiscal 2011 for the Company). While the Company expects to have adequate cash or borrowing capacity available to redeem the remaining $29.8 million of outstanding Debentures, negative variations from expected liquidity levels could require the Company to seek alternative financing on terms less favorable than those applicable to the Debentures.

There were $13.1 million of letters of credit and $23.2 million in revolver borrowings outstanding under the revolving credit facility at May 2, 2009. Net availability under the facility was $163.7 million. The Company is not required to comply with any financial covenants under the facility unless Adjusted Excess Availability (as defined in the Amended and Restated Credit Agreement) is less than 10% of the total commitments under the credit facility (currently $20.0 million). If and during such time as Adjusted Excess Availability is less than such amount, the credit facility requires the Company to meet a minimum fixed charge coverage ratio (EBITDA less capital expenditures less cash taxes divided by cash interest expense and scheduled payments of principal indebtedness) of 1.0 to 1.0. Adjusted Excess Availability was $163.7 million at May 2, 2009. Because Adjusted Excess Availability exceeded $20.0 million, the Company was not required to comply with this financial covenant at May 2, 2009.

The Credit Facility prohibits the payment of dividends and other restricted payments (including stock repurchases) unless after such dividend or restricted payment (i) availability is between $30.0 million and $50.0 million, the fixed charge coverage is greater than 1.0 to 1.0 or (ii) availability under the Credit Facility exceeds $50.0 million. The Company s management does not expect availability under the Credit Facility to fall below $50.0 million during Fiscal 2010.

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 $198,000.

Common Stock Repurchases

In March 2008, the board authorized up to $100.0 million in stock repurchases primarily funded with the after-tax cash proceeds of the settlement of merger-related litigation with The Finish Line and UBS. The Company repurchased 4.0 million shares at a cost of $90.9 million during the three months ended May 3, 2008, of which $2.5 million was not paid in the quarter but included in other accrued liabilities in the Condensed Consolidated Balance Sheets. The Company did not repurchase any shares during the three months ended May 2, 2009.

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 11 to the Company s Condensed Consolidated Financial Statements. The Company has made pretax accruals for certain of these contingencies, including approximately $0.4 million in the first quarter of Fiscal 2010 and $0.2 million in the first quarter of Fiscal 2009. These charges are included in the provision for discontinued operations, net in the Condensed Consolidated Statements of Earnings. The Company monitors these matters on an ongoing basis and, on a quarterly basis, management reviews the Company s reserves and accruals in relation to each of them, adjusting provisions as management deems necessary in view of changes in available information. Changes in estimates of liability are reported in the periods when they occur. Consequently, management believes that its reserve in relation to each proceeding is a reasonable estimate of the probable loss connected to the proceeding, or in cases in which no reasonable estimate is possible, the minimum amount in the range of estimated losses, based upon its analysis of the facts and circumstances as of the close of the most recent fiscal quarter. However, because of uncertainties and risks inherent in litigation generally and in environmental proceedings in particular, there can be no assurance that future developments will not require additional reserves to be set aside, that some or all reserves may not be adequate or that the amounts of any such additional reserves or any such inadequacy will not have a material adverse effect upon the Company s financial condition or results of operations.

Financial Market Risk
The following discusses the Company s exposure to financial market risk related to changes in interest rates.
Outstanding Debt of the Company The aggregate principal balance of the Company s outstanding long-term debt of $29.8 million 4 1/8% Convertible Subordinated Debentures due June 15, 2023 bears interest at a fixed rate. Accordingly, there would be no immediate impact on the Company s interest expense due to fluctuations in market interest rates.
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 does not have significant exposure to changing interest rates on invested cash at May 2, 2009. As a result, the Company considers the interest rate market risk implicit in these investments at May 2, 2009 to be low.
Accounts Receivable The Company s accounts receivable balance at May 2, 2009 is concentrated in its two wholesale businesses, which sell primarily to department stores and independent retailers across the United States. One customer accounted for 16% of the Company s trade accounts receivable balance and another customer accounted for 10% as of May 2, 2009 and no other customer accounted for more than 9% of the Company s trade receivables balance as of May 2, 2009. The Company monitors the credit quality of its customers and establishes an allowance for doubtful accounts based upon factors surrounding credit risk of specific customers, historical trends and other information, as well as customer specific factors; however, credit risk is affected by conditions or occurrences within the economy and the retail industry, as well as company-specific information.
Summary Based on the Company s overall market interest rate exposure at May 2, 2009, the Company believes that the effect, if any, of reasonably possible near-term changes in interest rates

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on the Company s consolidated financial position, results of operations or cash flows for Fiscal 2010 would not be material.

New Accounting Principles

Descriptions of the recently issued accounting principles and the accounting principles adopted by the Company during the three months ended May 2, 2009 are included in Notes 1 and 2 to the Condensed Consolidated Financial statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures.

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

Based on their evaluation as of May 2, 2009, the principal executive officer and principal financial officer of the Company have concluded that the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) were effective to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within time periods specified in SEC rules and forms and (ii) accumulated and communicated to the Company s management, including the Company s principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

Changes in internal control over financial reporting.

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

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PART II OTHER INFORMATION

Item 1. Legal Proceedings

The Company incorporates by reference the information regarding legal proceedings in Note 11 of the Company s Condensed Consolidated Financial Statements.

Item 1A. Risk Factors

There have been no material changes to the risk factors previously disclosed in Item 1A. Risk Factors in the Company s Annual Report on Form 10-K for the year ended January 31, 2009.

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

(a) On April 29, 2009, the Company entered into separate exchange agreements with certain holders of its 4 1/8% Convertible Subordinated Debentures due 2023 (the Debentures) pursuant to which holders of approximately $56.4 million in aggregate principal amount of Debentures agreed to exchange their Debentures for an aggregate of 3,066,713 shares of the Company s common stock and the payment of accrued interest. The issuance of the 3,066,713 shares of common stock was not registered under the Securities Act of 1933, as amended (the Securities Act), in reliance on an exemption under Section 402 of the Securities Act and Rule 506 of Regulation D, as the exchange offer was not public.

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

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total of Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of shares that May Yet Be Purchased Under the Plans or Programs (in thousands)
February 2009				
2-1-09 to 2-28-09(1)	320	$14.36	-0-	$ -0-
March 2009				
3-1-09 to 3-28-09(1)	40,656	$13.75	-0-	$ -0-
April 2009				
3-29-09 to 5-2-09	-0-	$ -0-	-0-	$ -0-

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

taxes.

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Item 6. Exhibits
Exhibits

(31.1)	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
(31.2)	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
(32.1)	Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
(32.2)	Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Genesco Inc.

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

Date: June 11, 2009

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