GENESCO INC
Form 10-Q
December 06, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 For the Quarter Ended October 27, 2012

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from to

Commission File No. 1-3083

Genesco Inc.
(Exact name of registrant as specified in its charter)

Tennessee (State or other jurisdiction of incorporation or organization)	62-0211340 (I.R.S. Employer Identification No.)
Genesco Park, 1415 Murfreesboro Road Nashville, Tennessee (Address of principal executive offices)	37217-2895 (Zip Code)

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

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

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

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

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o (Do not check if 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 x

As of November 23, 2012, 24,150,944 shares of the registrant's common stock were outstanding.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

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

Assets	October 27, 2012	January 28, 2012	Recast October 29, 2011(1)
Current Assets:			
Cash and cash equivalents	$39,890	$53,790	$36,073
Accounts receivable, net of allowances of $6,331 at October 27, 2012, $6,900 at January 28, 2012 and $5,770 at October 29, 2011	61,006	43,713	61,393
Inventories	600,251	435,113	544,099
Deferred income taxes	23,109	22,541	30,682
Prepaids and other current assets	42,520	40,155	45,442
Total current assets	766,776	595,312	717,689
Property and equipment:			
Land	6,152	6,118	6,151
Buildings and building equipment	20,427	20,260	20,319
Computer hardware, software and equipment	126,311	116,920	112,236
Furniture and fixtures	145,476	127,949	124,770
Construction in progress	12,757	7,158	8,094
Improvements to leased property	313,180	299,775	297,268
Property and equipment, at cost	624,303	578,180	568,838
Accumulated depreciation	(384,804)	(350,491)	(339,313)
Property and equipment, net	239,499	227,689	229,525
Deferred income taxes	30,711	28,152	19,054
Goodwill	272,201	259,759	262,304
Trademarks, net of accumulated amortization of $3,062 at October 27, 2012, $2,246 at January 28, 2012 and $1,975 at October 29, 2011	78,184	78,276	79,227
Other intangibles, net of accumulated amortization of $16,336 at October 27, 2012, $13,645 at January 28, 2012 and $12,746 at October 29, 2011	12,462	14,808	15,729
Other noncurrent assets	33,565	33,269	36,218
Total Assets	$1,433,398	$1,237,265	$1,359,746

(1) Certain previously reported October 29, 2011 balances have been recast to reflect the effects of finalizing the allocation of the Schuh purchase price. See Notes 1 and 2 for additional information.

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

Liabilities and Equity	October 27, 2012	January 28, 2012	Recast October 29, 2011(1)
Current Liabilities:			
Accounts payable	$219,826	$138,938	$243,594
Accrued employee compensation	64,362	53,029	61,592
Accrued other taxes	22,962	26,293	19,531
Accrued income taxes	2,415	16,390	2,482
Current portion – long-term debt	5,639	8,773	5,233
Other accrued liabilities	66,650	52,789	48,891
Provision for discontinued operations	7,081	8,250	8,288
Total current liabilities	388,935	304,462	389,611
Long-term debt	86,296	31,931	142,648
Pension liability	25,576	22,201	13,841
Deferred rent and other long-term liabilities	152,499	156,794	128,990
Provision for discontinued operations	4,202	4,267	4,359
Total liabilities	657,508	519,655	679,449
Commitments and contingent liabilities			
Equity			
Non-redeemable preferred stock	3,934	4,957	5,058
Common equity:			
Common stock, $1 par value:			
Authorized: 80,000,000 shares			
Issued/Outstanding:			
October 27, 2012 – 24,640,003/24,151,539			
January 28, 2012 – 24,757,826/24,269,362			
October 29, 2011 – 24,707,350/24,218,886	24,640	24,758	24,707
Additional paid-in capital	167,332	149,479	145,152
Retained earnings	625,499	586,990	545,566
Accumulated other comprehensive loss	(29,669)	(32,966)	(24,715)
Treasury shares, at cost	(17,857)	(17,857)	(17,857)
Total Genesco equity	773,879	715,361	677,911
Noncontrolling interest – non-redeemable	2,011	2,249	2,386
Total equity	775,890	717,610	680,297
Total Liabilities and Equity	$1,433,398	$1,237,265	$1,359,746

(1) Certain previously reported October 29, 2011 balances have been recast to reflect the effects of finalizing the allocation of the Schuh purchase price. See Note 2 for additional information.

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

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

	Three Months Ended		Nine Months Ended	
	October 27, 2012	October 29, 2011	October 27, 2012	October 29, 2011
Net sales	$664,458	$616,525	$1,808,124	$1,568,618
Cost of sales	330,110	306,068	894,090	775,604
Selling and administrative expenses	281,613	264,200	807,798	717,990
Asset impairments and other, net	357	345	896	1,936
Earnings from operations	52,378	45,912	105,340	73,088
Interest expense, net:				
Interest expense	1,342	1,885	3,691	3,498
Interest income	(41)	(16)	(66)	(34)
Total interest expense, net	1,301	1,869	3,625	3,464
Earnings from continuing operations before income taxes	51,077	44,043	101,715	69,624
Income tax expense	10,108	17,882	29,394	28,138
Earnings from continuing operations	40,969	26,161	72,321	41,486
Provision for discontinued operations, net	(94)	(73)	(312)	(997)
Net Earnings	$40,875	$26,088	$72,009	$40,489
Basic earnings per common share:				
Continuing operations	$1.74	$1.12	$3.05	$1.79
Discontinued operations	(0.01)	(0.01)	(0.01)	(0.05)
Net earnings	$1.73	$1.11	$3.04	$1.74
Diluted earnings per common share:				
Continuing operations	$1.71	$1.09	$3.00	$1.74
Discontinued operations	(0.01)	0.00	(0.02)	(0.04)
Net earnings	$1.70	$1.09	$2.98	$1.70

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

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

	Three Months Ended		Nine Months Ended	
	October 27, 2012	October 29, 2011	October 27, 2012	October 29, 2011
Net earnings	$40,875	$26,088	$72,009	$40,489
Other comprehensive income (loss):				
Gain (loss) on foreign currency forward contract, net of tax of $0.0 million for each period	32	1	12	64
Foreign currency translation adjustments	3,124	(2,444)	3,285	(474)
Total other comprehensive income (loss)	3,156	(2,443)	3,297	(410)
Comprehensive income	$44,031	$23,645	$75,306	$40,079

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		Nine Months Ended	
	October 27, 2012	October 29, 2011	October 27, 2012	October 29, 2011
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net earnings	$40,875	$26,088	$72,009	$40,489
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Depreciation and amortization	15,651	13,844	46,195	39,048
Amortization of deferred note expense and debt discount	198	199	594	510
Deferred income taxes	(5,121)	(232)	(7,325)	86
Provision for losses on accounts receivable	340	348	1,195	1,024
Impairment of long-lived assets	283	42	720	1,102
Restricted stock and share-based compensation	2,828	2,224	7,483	5,461
Provision for discontinued operations	155	122	515	1,646
Tax benefit of stock options and restricted stock exercised	(154)	(68)	(4,820)	(3,626)
Other	342	415	981	1,004
Effect on cash from changes in working capital and other assets and liabilities, before acquisitions:				
Accounts receivable	(15,515)	(18,570)	(18,379)	(13,072)
Inventories	(40,975)	(68,304)	(159,683)	(150,108)
Prepaids and other current assets	15,973	14,498	(1,790)	(3,975)
Accounts payable	2,934	43,082	67,320	110,361
Other accrued liabilities	9,552	20,911	227	(4,835)
Other assets and liabilities	689	(3,534)	1,320	(12,230)
Net cash provided by operating activities	28,055	31,065	6,562	12,885
CASH FLOWS FROM INVESTING ACTIVITIES:				
Capital expenditures	(20,332)	(14,412)	(52,865)	(37,625)
Acquisitions, net of cash acquired	(2,893)	(4,241)	(13,690)	(91,643)
Proceeds from asset sales	28	2	66	25
Net cash used in investing activities	(23,197)	(18,651)	(66,489)	(129,243)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Payments of capital leases	—	—	—	(21)
Payments of long-term debt	(1,417)	(1,172)	(9,014)	(17,246)
Borrowings under revolving credit facility	113,700	67,900	304,400	218,900
Payments on revolving credit facility	(121,600)	(82,581)	(245,500)	(116,100)
Tax benefit of stock options and restricted stock exercised	154	68	4,820	3,626
Share repurchases	(7,312)	—	(27,539)	—
Change in overdraft balances	3,372	2,386	12,984	(437)
Dividends paid on non-redeemable preferred stock	(33)	(49)	(114)	(147)
Exercise of stock options and issue shares - Employee Stock Purchase Plan	193	1,551	4,976	8,860
Other	—	(26)	—	(938)
Net cash (used in) provided by financing activities	(12,943)	(11,923)	45,013	96,497

Effect of foreign exchange rate fluctuations on cash	753	—	1,014	—
Net (Decrease) Increase in Cash and Cash Equivalents	(7,332)	491	(13,900)	(19,861)
Cash and cash equivalents at beginning of period	47,222	35,582	53,790	55,934
Cash and cash equivalents at end of period	$39,890	$36,073	$39,890	$36,073
Supplemental Cash Flow Information:				
Net cash paid for:				
Interest	$1,334	$1,545	$3,043	$3,369
Income taxes	8,839	2,768	53,752	41,341

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

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

	Total Non-Redeemable Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Shares	Non Controlling Interest Non-Redeemable	Total Equity
Balance January 29, 2011	$ 5,183	$ 24,163	$ 131,910	$ 505,224	$ (24,305)	$ (17,857)	$ 2,503	$ 626,821
Net earnings	—	—	—	81,959	—	—	—	81,959
Other comprehensive loss	—	—	—	—	(8,661)	—	—	(8,661)
Dividends paid on non-redeemable preferred stock	—	—	—	(193)	—	—	—	(193)
Exercise of stock options	—	390	9,297	—	—	—	—	9,687
Issue shares – Employee Stock Purchase Plan	—	3	130	—	—	—	—	133
Employee and non-employee restricted stock	—	—	7,659	—	—	—	—	7,659
Share-based compensation	—	—	1	—	—	—	—	1
Restricted stock issuance	—	304	(304)	—	—	—	—	—
Restricted shares withheld for taxes	—	(93)	(4,034)	—	—	—	—	(4,127)
Tax benefit of stock options and restricted stock exercises	—	—	4,585	—	—	—	—	4,585
Other	(226)	(9)	235	—	—	—	—	—
Noncontrolling interest – loss	—	—	—	—	—	—	(254)	(254)
Balance January 28, 2012	4,957	24,758	149,479	586,990	(32,966)	(17,857)	2,249	717,610
Net earnings	—	—	—	72,009	—	—	—	72,009
Other comprehensive income	—	—	—	—	3,297	—	—	3,297
Dividends paid on non-redeemable preferred stock	—	—	—	(114)	—	—	—	(114)
Exercise of stock options	—	224	4,584	—	—	—	—	4,808
Issue shares - Employee Stock	—	3	165	—	—	—	—	168

Purchase Plan								
Employee and non-employee restricted stock	—	—	7,483	—	—	—	—	7,483
Restricted stock issuance	—	194	(194)	—	—	—	—	—
Restricted shares withheld for taxes	—	(76)	—	(4,455)	—	—	—	(4,531)
Tax benefit of stock options and restricted stock exercised	—	—	4,820	—	—	—	—	4,820
Shares repurchased	—	(491)	—	(28,931)	—	—	—	(29,422)
Other	(1,023)	28	995	—	—	—	—	—
Noncontrolling interest – loss	—	—	—	—	—	—	(238)	(238)
Balance October 27, 2012	$ 3,934	$24,640	$167,332	$625,499	$ (29,669)	$(17,857)	$ 2,011	$775,890

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

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

Note 1
Summary of Significant Accounting Policies

Interim Statements
The condensed consolidated financial statements and footnotes contained in this report are unaudited but reflect all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the results for the interim periods of the fiscal year ending February 2, 2013 ("Fiscal 2013") and of the fiscal year ended January 28, 2012 ("Fiscal 2012"). The results of operations for any interim period are not necessarily indicative of results for the full year. The interim financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K.

Nature of Operations
The Company's business includes the design and sourcing, marketing and distribution of footwear and accessories through retail stores in the U.S., Puerto Rico and Canada primarily under the Journeys, Journeys Kidz, Shi by Journeys, Underground by Journeys and Johnston & Murphy banners and under the Schuh banner in the United Kingdom and the Republic of Ireland; through e-commerce websites including journeys.com, journeyskidz.com, shibyjourneys.com, undergroundbyjourneys.com, schuh.co.uk and johnstonmurphy.com and catalogs, and at wholesale, primarily under the Company's Johnston & Murphy brand, the licensed Dockers brand and other brands that the Company licenses for men's footwear. The Company's business also includes Lids Sports Group, which operates headwear and accessory stores in the U.S. and Canada primarily under the Lids, Hat World and Hat Shack banners; the Lids Locker Room business, consisting of sports-oriented fan shops featuring a broad array of licensed merchandise such as apparel, hats and accessories, sports decor and novelty products, operating primarily under the Lids Locker Room, Sports Fan-Attic and Sports Avenue banners; certain e-commerce operations and an athletic team dealer business operating as Lids Team Sports. Including both the footwear businesses and the Lids Sports Group business, at October 27, 2012, the Company operated 2,448 retail stores in the U.S., Puerto Rico, Canada, the United Kingdom and the Republic of Ireland.

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

Financial Statement Reclassifications and Recasting
The Condensed Consolidated Balance Sheet at October 29, 2011 has been derived from the Consolidated Financial Statements at that date as recast to reflect the effects of finalizing the allocation of the Schuh purchase price, but does not include all the notes required by generally accepted accounting principles for complete financial statements. As a result of the change in total assets for the period ended October 29, 2011, total segment assets in Note 9 for Schuh Group and Corporate and Other have been recast by $7.2 million and $9.5 million, respectively. For additional information, refer to the Consolidated Financial Statements and related notes for the year ended January 28, 2012 included in the Company's Annual Report on Form 10-K.

Certain reclassifications have been made to conform prior years' data to the current year presentation with respect to segments. The Company integrated the Underground Station operations into the Journeys Group in the first quarter of Fiscal 2013. The former Underground Station stores will be

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

Note 1
Summary of Significant Accounting Policies, Continued

a subset of Journeys Group under the brand "Underground by Journeys." Journeys Group segment net sales, operating income, total assets, depreciation and amortization and capital expenditures have been restated by $22.7 million, $(0.1) million, $29.3 million, $0.4 million and $0.1 million, respectively, for the three months ended October 29, 2011 and $65.9 million, $(1.9) million, $29.3 million, $1.4 million and $0.2 million, respectively, for the nine months ended October 29, 2011 as a result of combining Underground Station Group with the Journeys Group segment to conform to current year presentation (See Note 9).

Certain shipping and warehouse expenses have been reclassed from selling and administrative expenses to cost of sales in Fiscal 2012 to conform to the current year presentation. The reclass to cost of sales from selling and administrative expense for the three months and nine months ended October 29, 2011 was $1.7 million and $4.0 million, respectively.

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

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

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

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

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

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

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

Note 1
Summary of Significant Accounting Policies, Continued

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

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

Impairment of Long-Lived Assets
The Company periodically assesses the realizability of its long-lived assets and evaluates such assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Asset impairment is determined to exist if estimated future cash flows, undiscounted and without interest charges, are less than the carrying amount. Inherent in the analysis of impairment are subjective judgments about future cash flows. Failure to make appropriate conclusions regarding these judgments may result in an overstatement or understatement of the value of long-lived assets. See also Notes 3 and 5.
The goodwill impairment test involves a two step process. The first step is a comparison of the fair value and carrying value of the reporting unit with which the goodwill is associated. The Company estimates fair value using the best information available and computes the fair value by an equal weighting of the results arrived by a market approach and an income approach utilizing discounted cash flow projections. The income approach uses a projection of a business unit’s estimated operating results and cash flows that is discounted using a weighted-average cost of capital that reflects current market conditions. A key assumption in the Company’s fair value estimate is the weighted average cost of capital utilized for discounting its cash flow projections in its income approach. The Company believes the rate it used in its latest annual test, which was completed in the fourth quarter, was consistent with the risks inherent in its business and with industry discount rates. The projection uses management’s best estimates of economic and market conditions over the projected period including growth rates in sales, costs, estimates of future expected changes in operating margins and cash expenditures. Other significant estimates and assumptions include terminal value growth rates, future estimates of capital expenditures and changes in future working capital requirements.

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

Note 1
Summary of Significant Accounting Policies, Continued

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

Environmental and Other Contingencies
The Company is subject to certain loss contingencies related to environmental proceedings and other legal matters. The Company has made pretax accruals for certain of these contingencies, including approximately $0.2 million in each of the third quarters of Fiscal 2013 and 2012, and $0.6 million and $1.8 million in the first nine months of Fiscal 2013 and 2012, respectively. These charges are included in provision for discontinued operations, net in the Condensed Consolidated Statements of Operations because they relate to former facilities operated by the Company. The Company monitors these matters on an ongoing basis and, on a quarterly basis, management reviews the Company’s reserves and accruals, adjusting provisions as management deems necessary in view of changes in available information. Changes in estimates of liability are reported in the periods when they occur. Consequently, management believes that its reserve in relation to each proceeding is a best estimate of probable loss connected to the proceeding, or in cases in which no best estimate is possible, the minimum amount in the range of estimated losses, based upon its analysis of the facts and circumstances as of the close of the most recent fiscal quarter. However, because of uncertainties and risks inherent in litigation generally and in environmental proceedings in particular, there can be no assurance that future developments will not require additional reserves, that some or all reserves will be adequate or that the amounts of any such additional reserves or any such inadequacy will not have a material adverse effect upon the Company’s financial condition or results of operations. See also Notes 3 and 8.

Revenue Recognition
Retail sales are recorded at the point of sale and are net of estimated returns and exclude sales and value added taxes. Catalog and internet sales are recorded at estimated time of delivery to the customer and are net of estimated returns and exclude sales and value added 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.

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

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 increased in a period, the Company includes an expense within the tax provision in the Condensed Consolidated Statements of Operations. These deferred tax valuation allowances may be released in future years when management considers that it is more likely than not that some portion or all of the deferred tax assets will be realized. In making such a determination, management will need to periodically evaluate whether or not all available evidence, such as future taxable income and reversal of temporary differences, tax planning strategies, and recent results of operations, provides sufficient positive evidence to offset any potential negative evidence that may exist at such time. In the event the deferred tax valuation allowance is released, the Company would record an income tax benefit for the portion or all of the deferred tax valuation allowance released. At October 27, 2012, the Company had a deferred tax valuation allowance of $3.6 million.

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

The Company recorded an effective income tax rate of 19.8% in the third quarter of Fiscal 2013 compared to 40.6% for the same period last year and 28.9% and 40.4% for the first nine months of Fiscal 2013 and 2012, respectively. This year's tax rate is lower primarily due to the reversal of charges previously recorded related to uncertain tax positions due to the expiration of the applicable statutes of limitations and a settlement with a state tax authority more favorable than anticipated related to other uncertain tax positions.

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

Note 1
Summary of Significant Accounting Policies, Continued

Postretirement Benefits Plan Accounting
Full-time employees who had at least 1,000 hours of service in calendar year 2004, except employees in the Lids Sports Group and Schuh Group segments, are covered by a defined benefit pension plan. The Company froze the defined benefit pension plan effective January 1, 2005. The Company also provides certain former employees with limited medical and life insurance benefits. The Company funds at least the minimum amount required by the Employee Retirement Income Security Act.

As required by the Compensation – Retirement Benefits Topic of the Codification, the Company is required to recognize the overfunded or underfunded status of postretirement benefit plans as an asset or liability in their Condensed Consolidated Balance Sheets and to recognize changes in that funded status in accumulated other comprehensive loss, net of tax, in the year in which the changes occur.

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

Share-Based Compensation
The Company has share-based compensation plans covering certain members of management and non-employee directors. The Company recognizes compensation expense for share-based payments based on the fair value of the awards as required by the Compensation – Stock Compensation Topic of the Codification. There was no share-based compensation expense related to stock options for the third quarter and first nine months of Fiscal 2013 and 2012. The Company has not issued any new stock option awards since the first quarter of Fiscal 2008. For the third quarter of Fiscal 2013 and 2012, restricted stock expense was $2.8 million and $2.3 million, respectively. For the first nine months of Fiscal 2013 and 2012, restricted stock expense was $7.5 million and $5.5 million, respectively. The fair value of employee restricted stock is determined based on the closing price of the Company's stock on the date of the grant. The benefits of tax deductions in excess of recognized compensation expense are reported as a financing cash flow.

There were no employee restricted stock or director restricted stock grants during the three months ended October 27, 2012 or October 29, 2011. During the nine months ended October 27, 2012, the Company issued 194,232 shares of employee restricted stock at a grant date fair value of $57.58 per share which vest over a four-year term. For the nine months ended October 27, 2012, the Company issued 10,224 shares of director restricted stock at a weighted average price of $65.06, which vest on the first anniversary of the grant date. During the nine months ended October 29, 2011, the Company issued 289,407 shares of employee restricted stock at a grant date fair value of $45.14 per share which vest over a four-year term. For the nine months ended October 29, 2011, the Company issued 14,643 shares of director restricted stock at a weighted average price of $43.01 which vest on the first anniversary of the grant date.

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Note 1
Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents
Included in cash and cash equivalents at October 27, 2012, January 28, 2012 and October 29, 2011 are cash equivalents of $0.0 million, $0.2 million and $0.2 million, respectively. Cash equivalents are highly-liquid financial instruments having an original maturity of three months or less. At October 27, 2012, substantially all of the Company's domestic cash was invested in deposit accounts at FDIC-insured banks. All of the Company's domestic deposit account balances are currently FDIC insured as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The majority of payments due from banks for domestic customer credit card transactions process within 24 - 48 hours and are accordingly classified as cash and cash equivalents.

At October 27, 2012, January 28, 2012 and October 29, 2011, outstanding checks drawn on zero-balance accounts at certain domestic banks exceeded book cash balances at those banks by approximately $52.0 million, $39.0 million and $35.7 million, respectively. These amounts are included in accounts payable.

Concentration of Credit Risk and Allowances on Accounts Receivable
The Company's footwear wholesale businesses sell primarily to independent retailers and department stores across the United States. Receivables arising from these sales are not collateralized. Customer credit risk is affected by conditions or occurrences within the economy and the retail industry as well as by customer specific factors. The Company's Lids Team Sports wholesale business sells primarily to colleges and high school athletic teams and their fan bases. Including both footwear wholesale and Lids Team Sports wholesale business receivables, one customer accounted for 7% of the Company's total trade receivables balance, while no other customer accounted for more than 6% of the Company's total trade receivables balance as of October 27, 2012.

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

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

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

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Note 1
Summary of Significant Accounting Policies, Continued

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

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

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 $20.0 million, $17.6 million and $19.2 million at October 27, 2012, January 28, 2012 and October 29, 2011, respectively, and deferred rent of $37.2 million, $35.2 million and $34.8 million at October 27, 2012, January 28, 2012 and October 29, 2011, respectively, are included in deferred rent and other long-term liabilities on the Condensed Consolidated Balance Sheets.

Goodwill and Other Intangibles
Under the provisions of the Intangibles – Goodwill and Other Topic of the Codification, goodwill and intangible assets with indefinite lives are not amortized, but are tested at least annually, during the fourth quarter, for impairment. The Company will update the tests between annual tests if events or circumstances occur that would more likely than not reduce the fair value of the business unit with which the goodwill is associated below its carrying amount. It is also required that intangible assets with finite lives be amortized over their respective lives to their estimated residual values, and reviewed for impairment in accordance with the Property, Plant and Equipment Topic of the Codification.

Intangible assets of the Company with indefinite lives are primarily goodwill and identifiable trademarks acquired in connection with the acquisition of Schuh Group Ltd. in June 2011 and Hat World Corporation in April 2004. The Condensed Consolidated Balance Sheets include goodwill of $168.8 million for the Lids Sports Group, $102.6 million for the Schuh Group and $0.8 million for Licensed Brands at October 27, 2012, $159.1 million for the Lids Sports Group, $99.9 million for the Schuh Group and $0.8 million for Licensed Brands at January 28, 2012 and $159.0 million for the Lids Sports Group, $102.5 million for the Schuh Group and $0.8 million for Licensed Brands at October 29, 2011. The Company tests for impairment of intangible assets with an indefinite life, at a minimum on an annual basis, relying on a number of factors including operating results, business plans, projected future cash flows and observable market data. The impairment test for identifiable assets not subject to amortization consists of a comparison of the fair value of the intangible asset with its carrying amount. The Company has not had an impairment charge for intangible assets.

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Note 1
Summary of Significant Accounting Policies, Continued

In connection with acquisitions, the Company records goodwill on its Condensed Consolidated Financial Statements. This asset is not amortized but is subject to an impairment test at least annually, based on projected future cash flows from the acquired business discounted at a rate commensurate with the risk the Company considers to be inherent in its current business model. The Company performs the impairment test annually as of the close of its fiscal year, or more frequently if events or circumstances indicate that the value of the asset might be impaired.

As a result of the various acquisitions comprising the Lids Team Sports team dealer business, the Company carries goodwill at a value of $14.0 million on its Condensed Consolidated Balance Sheets. Because the team dealer business to which the goodwill relates had performed somewhat below the Company's expectations, the Company performed impairment testing as of August 25, 2012. Although the Company found that the result of the impairment test, which valued the business at approximately $1.2 million in excess of its carrying value, indicated no impairment at that time. The Company may determine in connection with the test to be performed as of the end of the current fiscal year or in future tests that some or all of the carrying value of the goodwill may not be recoverable. Such a finding would require a write-off of the amount of the carrying value that is impaired, which would reduce the Company's profitability in the period of the impairment charge. Holding all other assumptions constant as of the measurement date, the Company noted that an increase in the weighted average cost of capital of 100 basis points would reduce the fair value of the Lids Team Sports business by $4.0 million. Furthermore, the Company noted that a decrease in projected annual revenue growth by one percent would reduce the fair value of the Lids Team Sports business by $4.3 million. However, if other assumptions do not remain constant, the fair value of the Lids Team Sports business may decrease by a greater amount. Since the maximum non-cash goodwill impairment charge would be $14.0 million, the Company does not believe that any impairment charge related thereto would be material.

Identifiable intangible assets of the Company with finite lives are trademarks, customer lists, in-place leases, non-compete agreements and a vendor contract acquired in connection with the acquisitions of Hat World, Inc. in April 2004, Hat Shack, Inc. in January 2007, Impact Sports in November 2008, Great Plains Sports in September 2009, Sports Fan-Attic in November 2009, Brand Innovators in May 2010, Anaconda Sports in August 2010, Keuka Footwear in August 2010, Sports Avenue in October 2010 and Schuh in June 2011 as well as various smaller acquisitions. They are subject to amortization based upon their estimated useful lives. Finite-lived intangible assets are evaluated for impairment using a process similar to that used to evaluate other definite-lived long-lived assets, a comparison of the fair value of the intangible asset with its carrying amount. An impairment loss is recognized for the amount by which the carrying value exceeds the fair value of the asset.

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Note 1
Summary of Significant Accounting Policies, Continued

Fair Value of Financial Instruments
The carrying amounts and fair values of the Company's financial instruments at October 27, 2012 and January 28, 2012 are:

Fair Values

In thousands	October 27, 2012		January 28, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
U.S. Revolver Borrowings	$63,900	$63,968	$5,000	$5,021
UK Term Loans	28,035	27,970	35,704	35,387

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

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

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

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

Selling and Administrative Expenses
Selling and administrative expenses include all operating costs of the Company excluding (i) those related to the transportation of products from the supplier to the warehouse, (ii) for its retail operations, those related to the transportation of products from the warehouse to the store and (iii) costs of its distribution facilities which are allocated to its retail operations. Wholesale and unallocated retail costs of distribution are included in selling and administrative expenses in the amounts of $2.2 million and $2.8 million for the third quarters of Fiscal 2013 and 2012, respectively, and $6.0 million and $7.1 million for the first nine months of Fiscal 2013 and 2012, respectively.

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

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Notes to Condensed Consolidated Financial Statements (unaudited)

Note 1
Summary of Significant Accounting Policies, Continued

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 each of the third quarters of Fiscal 2013 and 2012 and $0.2 million and $0.3 million for the first nine months of Fiscal 2013 and 2012, respectively. The Condensed Consolidated Balance Sheets include an accrued liability for gift cards of $9.7 million, $10.4 million and $7.3 million at October 27, 2012, January 28, 2012 and October 29, 2011, respectively.

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

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

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

Store Closings and Exit Costs
From time to time, the Company makes strategic decisions to close stores or exit locations or activities. If stores or operating activities to be closed or exited constitute components, as defined by the Property, Plant and Equipment Topic of the Codification, and will not result in a migration of customers and cash flows, these closures will be considered discontinued operations when the related assets meet the criteria to be classified as held for sale, or at the cease-use date, whichever occurs first. The results of operations of discontinued operations are presented retroactively, net of tax, as a separate component on the Condensed Consolidated Statements of Operations, if material individually or cumulatively. To date, in Fiscal 2013, no store closings meeting the discontinued operations criteria have been material individually or cumulatively.

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

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Note 1
Summary of Significant Accounting Policies, Continued

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

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

Advertising Costs
Advertising costs are predominantly expensed as incurred. Advertising costs were $12.5 million and $11.0 million for the third quarter of Fiscal 2013 and 2012, respectively, and $33.6 million and $29.1 million for the first nine months of Fiscal 2013 and 2012, respectively. Direct response advertising costs for catalogs are capitalized in accordance with the Other Assets and Deferred Costs Topic for Capitalized Advertising Costs of the Codification. Such costs are amortized over the estimated future period as revenues are realized from such advertising, not to exceed six months.

The Condensed Consolidated Balance Sheets include prepaid assets for direct response advertising costs of $1.8 million, $1.1 million and $2.3 million at October 27, 2012, January 28, 2012 and October 29, 2011.

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

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

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Notes to Condensed Consolidated Financial Statements (unaudited)

Note 1
Summary of Significant Accounting Policies, Continued

Cooperative advertising costs recognized in selling and administrative expenses were $1.1 million and $0.8 million for the third quarter of Fiscal 2013 and 2012, respectively, and $2.8 million and $2.5 million for the first nine months of Fiscal 2013 and 2012, respectively. During the first nine months of Fiscal 2013 and 2012, the Company's cooperative advertising reimbursements paid did not exceed the fair value of the benefits received under those agreements.

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

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

Vendor reimbursements of cooperative advertising costs recognized as a reduction of selling and administrative expenses were $0.9 million and $0.3 million for the third quarter of Fiscal 2013 and 2012, respectively, and $2.5 million and $2.1 million for the first nine months of Fiscal 2013 and 2012, respectively. During the first nine months of Fiscal 2013 and 2012, the Company's cooperative advertising reimbursements received were not in excess of the costs incurred.

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

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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 7).

Other Comprehensive Income
The Comprehensive Income Topic of the Codification requires, among other things, the Company's pension liability adjustment, postretirement liability adjustment, unrealized gains or losses on foreign currency forward contracts and foreign currency translation adjustments to be included in other comprehensive income net of tax. Accumulated other comprehensive loss at October 27, 2012 consisted of $29.6 million of cumulative pension liability adjustments, net of tax, a cumulative post retirement liability adjustment of $0.3 million, net of tax, offset by a cumulative foreign currency translation adjustment of $0.2 million.

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

Derivative Instruments and Hedging Activities
The Derivatives and Hedging Topic of the Codification requires an entity to recognize all derivatives as either assets or liabilities in the Condensed Consolidated Balance Sheet and to measure those instruments at fair value. Under certain conditions, a derivative may be specifically designated as a fair value hedge or a cash flow hedge. The accounting for changes in the fair value of a derivative are recorded each period in current earnings or in other comprehensive income depending on the intended use of the derivative and the resulting designation. In prior periods, the Company entered into a small amount of foreign currency forward exchange contracts in order to reduce exposure to foreign currency exchange rate fluctuations in connection with inventory purchase commitments for its Johnston & Murphy Group.

There were no such contracts outstanding at October 27, 2012 or January 28, 2012. The notional amount of such contracts outstanding at October 29, 2011 was $1.4 million. For the nine months ended October 27, 2012, the Company recorded an unrealized gain on foreign currency forward contracts of less than $0.1 million in accumulated other comprehensive loss, before taxes. The Company monitors the credit quality of the major international, national and regional financial institutions with which it enters into such contracts.

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

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Note 1
Summary of Significant Accounting Policies, Continued

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

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Note 2
Acquisitions and Intangible Assets

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

Headquartered in Scotland, Schuh is a specialty retailer of casual and athletic footwear sold through 75 retail stores in the United Kingdom and the Republic of Ireland and 13 concessions in Republic apparel stores as of October 27, 2012. The Company completed the acquisition in order to enhance its strategic development and prospects for growth and provide the Company with an established retail presence in the United Kingdom and improved insight into global fashion trends. The results of Schuh's operations for the three months ended October 27, 2012 include net sales of $92.3 million and operating earnings of $2.7 million, and for the nine months ended October 27, 2012 include net sales of $243.7 million and an operating loss of $(0.8) million, and have been included in the Company's Condensed Consolidated Financial Statements for the three months and nine months ended October 27, 2012. During the three months and nine months ended October 27, 2012, compensation expense related to the Schuh acquisition deferred purchase price obligation was $3.0 million and $8.9 million, respectively. This expense is included in the operating earnings (loss) for the Schuh Group segment.

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Note 2
Acquisitions and Intangible Assets, Continued

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

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

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

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

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Note 2
Acquisitions and Intangible Assets, Continued

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

In thousands, except per share data	Nine Months Ended - Pro forma October 29, 2011
Net sales	$1,660,898
Earnings from continuing operations	42,586
Earnings per share:	
Basic	$1.83
Diluted	$1.79

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

Intangible Assets
Other intangibles by major classes were as follows:

(In Thousands)	Leases		Customer Lists		Other*		Total	
	Oct. 27, 2012	Jan. 28, 2012	Oct. 27, 2012	Jan. 28, 2012	Oct. 27, 2012	Jan. 28, 2012	Oct. 27, 2012	Jan. 28, 2012
Gross other intangibles	$12,519	$12,390	$14,147	$14,062	$2,132	$2,001	$28,798	$28,453
Accumulated amortization	(10,486)	(9,477)	(4,797)	(3,292)	(1,053)	(876)	(16,336)	(13,645)
Net Other Intangibles	$2,033	$2,913	$9,350	$10,770	$1,079	$1,125	$12,462	$14,808

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

The amortization of intangibles, including trademarks, was $0.8 million for each of the third quarters of Fiscal 2013 and 2012, and $2.5 million and $2.3 million for the first nine months of Fiscal 2013 and 2012, respectively. The amortization of intangibles, including trademarks, will be $4.6 million, $4.2 million, $3.1 million, $2.2 million and $1.6 million for Fiscal 2013, 2014, 2015, 2016 and 2017, respectively.

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Note 3
Asset Impairments and Other Charges and Discontinued Operations

Asset Impairments and Other Charges

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

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

The Company recorded a pretax charge to earnings of $0.4 million in the third quarter of Fiscal 2013, including $0.3 million for retail store asset impairments and $0.1 million for other legal matters. The Company recorded a pretax charge to earnings of $0.9 million in the first nine months of Fiscal 2013, including $0.7 million for retail store asset impairments, $0.1 million for network intrusion expenses and $0.1 million for other legal matters.

The Company recorded a pretax charge to earnings of $0.3 million in the third quarter of Fiscal 2012, including $0.2 million for other legal matters and $0.1 million for network intrusion expenses. The Company recorded a pretax charge to earnings of $1.9 million in the first nine months of Fiscal 2012, including $1.1 million for retail store asset impairments, $0.5 million for network intrusion expenses and $0.3 million for other legal matters.

Discontinued Operations

Accrued Provision for Discontinued Operations

In thousands	Facility Shutdown Costs
Balance January 29, 2011	$15,035
Additional provision Fiscal 2012	1,692
Charges and adjustments, net	(4,210)
Balance January 28, 2012	12,517
Additional provision Fiscal 2013	515
Charges and adjustments, net	(1,749)
Balance October 27, 2012*	11,283
Current provision for discontinued operations	7,081
Total Noncurrent Provision for Discontinued Operations	$4,202

*Includes a $11.8 million environmental provision, including $7.6 million in current provision for discontinued operations.

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Note 4
Inventories

In thousands	October 27, 2012	January 28, 2012
Raw materials	$28,888	$30,636
Wholesale finished goods	46,340	53,453
Retail merchandise	525,023	351,024
Total Inventories	$600,251	$435,113

Note 5
Fair Value

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

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

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

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

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

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Note 5
Fair Value, Continued

The following table presents the Company’s assets (which excludes the Company's pension plan assets) and liabilities measured at fair value on a nonrecurring basis as of October 27, 2012 aggregated by the level in the fair value hierarchy within which those measurements fall (in thousands):

	Long-Lived Assets Held and Used	Level 1	Level 2	Level 3	Total Losses
Measured as of April 28, 2012	$47	$—	$—	$47	$46
Measured as of July 28, 2012	$54	$—	$—	$54	$391
Measured as of October 27, 2012	$211	$—	$—	$211	$283

In accordance with the Property, Plant and Equipment Topic of the Codification, the Company recorded $0.3 million and $0.7 million of impairment charges as a result of the fair value measurement of its long-lived assets held and used on a nonrecurring basis during the three months and nine months ended October 27, 2012. These charges are reflected in asset impairments and other, net on the Condensed Consolidated Statements of Operations.

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

Note 6
Defined Benefit Pension Plans and Other Benefit Plans

Components of Net Periodic Benefit Cost

	Pension Benefits		Other Benefits	
	Three Months Ended		Three Months Ended	
In thousands	October 27, 2012	October 29, 2011	October 27, 2012	October 29, 2011
Service cost	$88	$63	$89	$42
Interest cost	1,239	1,400	39	43
Expected return on plan assets	(1,750)	(1,952)	—	—
Amortization:				
Prior service cost	1	1	—	—
Losses	1,478	1,162	21	20
Net amortization	1,479	1,163	21	20
Net Periodic Benefit Cost	$1,056	$674	$149	$105

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

Components of Net Periodic Benefit Cost

In thousands	Pension Benefits Nine Months Ended October 27, 2012	Pension Benefits Nine Months Ended October 29, 2011	Other Benefits Nine Months Ended October 27, 2012	Other Benefits Nine Months Ended October 29, 2011
Service cost	$ 264	$ 189	$ 267	$ 126
Interest cost	3,722	4,198	117	129
Expected return on plan assets	(5,254)	(5,856)	—	—
Amortization:				
Prior service cost	3	3	—	—
Losses	4,554	3,565	63	60
Net amortization	4,557	3,568	63	60
Net Periodic Benefit Cost	$ 3,289	$ 2,099	$ 447	$ 315

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

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Note 7
Earnings Per Share

(In thousands, except per share amounts)	For the Three Months Ended October 27, 2012 Income (Numerator)	Shares (Denominator)	Per Share Amount	For the Three Months Ended October 29, 2011 Income (Numerator)	Shares (Denominator)	Per Share Amount
Earnings from continuing operations	$40,969			$26,161		
Less: Preferred stock dividends	(33)			(49)		
Basic EPS from continuing operations						
Income available to common shareholders	40,936	23,584	$1.74	26,112	23,407	$1.12
Effect of Dilutive Securities from continuing operations						
Options		331			464	
Convertible preferred stock[(1)]	22	34		37	57	
Employees' preferred stock[(2)]		47			48	
Diluted EPS						
Income available to common shareholders plus assumed conversions	$40,958	23,996	$1.71	$26,149	23,976	$1.09

(1) The amount of the dividend on the convertible preferred stock per common share obtainable on conversion of the convertible preferred stock was less than basic earnings per share for all periods presented. Therefore, conversion of these convertible preferred stocks were included in diluted earnings per share. The shares convertible to common stock for Series 1, 3 and 4 preferred stock would have been 13,502, 15,575 and 4,920, respectively, as of October 27, 2012.

(2) The Company's Employees' Subordinated Convertible Preferred Stock is convertible one for one to the Company's common stock. Because there are no dividends paid on this stock, these shares are assumed to be converted for the third quarters ended October 27, 2012 and October 29, 2011.

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Note 7
Earnings Per Share, Continued

	For the Nine Months Ended October 27, 2012			For the Nine Months Ended October 29, 2011		
(In thousands, except per share amounts)	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Earnings from continuing operations	$72,321			$41,486		
Less: Preferred stock dividends	(114)			(147)		
Basic EPS from continuing operations Income available to common shareholders	72,207	23,653	$3.05	41,339	23,158	$1.79
Effect of Dilutive Securities from continuing operations						
Options		386			496	
Convertible preferred stock(1)	66	34		41	25	
Employees' preferred stock(2)		48			49	
Diluted EPS Income available to common shareholders plus assumed conversions	$72,273	24,121	$3.00	$41,380	23,728	$1.74

(1) The amount of the dividend on the convertible preferred stock per common share obtainable on conversion of the convertible preferred stock was less than basic earnings per share for all preferred stocks for the nine months ended October 27, 2012 and for Series 3 preferred stock for the nine months ended October 29, 2011. Therefore, conversion of all the preferred shares were included in diluted earnings per share for the nine months ended October 27, 2012 and conversion of Series 3 preferred stock was included in diluted earnings per share for the nine months ended October 29, 2011. The amount of the dividend on the convertible preferred stock per common share obtainable on conversion of the convertible preferred stock was higher than basic earnings per share for Series 1 and 4 preferred stock for the nine months ended October 29, 2011. Therefore, conversion of the Series 1 and 4 convertible preferred stocks for the nine months ended October 29, 2011 were not reflected in diluted earnings per share because it would have been antidilutive. The shares convertible to common stock for Series 1, 3 and 4 preferred stock would have been 13,502, 15,575 and 4,920, respectively, as of October 27, 2012.

(2) The Company's Employees' Subordinated Convertible Preferred Stock is convertible one for one to the Company's common stock. Because there are no dividends paid on this stock, these shares are assumed to be converted for the nine months ended October 27, 2012 and October 29, 2011.

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Note 7
Earnings Per Share, Continued

The Company repurchased 491,111 shares during the nine months ended October 27, 2012 for $29.4 million of which $1.9 million was not paid in the third quarter but included in other accrued liabilities in the Condensed Consolidated Balance Sheets. The Company did not repurchase any shares during the nine months ended October 29, 2011.

Note 8
Legal Proceedings

Environmental Matters
New York State Environmental Matters
In August 1997, the New York State Department of Environmental Conservation (“NYSDEC”) and the Company entered into a consent order whereby the Company assumed responsibility for conducting a remedial investigation and feasibility study (“RIFS”) and implementing an interim remedial measure (“IRM”) with regard to the site of a knitting mill operated by a former subsidiary of the Company from 1965 to 1969. The Company undertook the IRM and RIFS voluntarily, without admitting liability or accepting responsibility for any future remediation of the site. The Company has completed the IRM and the RIFS. In the course of preparing the RIFS, the Company identified remedial alternatives with estimated undiscounted costs ranging from $0 million to $24.0 million, excluding amounts previously expended or provided for by the Company. The United States Environmental Protection Agency (“EPA”), which has assumed primary regulatory responsibility for the site from NYSDEC, issued a Record of Decision in September 2007. The Record of Decision requires a remedy of a combination of groundwater extraction and treatment and in-site chemical oxidation at an estimated present cost of approximately $10.7 million.

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

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

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Note 8
Legal Proceedings, Continued

all counts of the plaintiff's complaint except for the CERCLA claim and a state law claim for indemnity for costs incurred after November 27, 2000. On September 23, 2009, on a motion for reconsideration by the Village, the Court reinstated the claims for injunctive relief under RCRA and for equitable relief under certain of the state law theories. The Company intends to continue to defend the action.

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

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

In October 2010, the Company and the Michigan Department of Natural Resources and Environment entered into a Consent Decree providing for implementation of a remedial Work Plan for the facility site designed to bring the site into compliance with applicable regulatory standards. The Work Plan's implementation is substantially complete and the Company expects, based on its present understanding of the condition of the site, that its future obligations with respect to the site will be limited to periodic monitoring and that future costs related to the site should not have a material effect on its financial condition or results of operations.

Accrual for Environmental Contingencies
Related to all outstanding environmental contingencies, the Company had accrued $11.8 million as of October 27, 2012, $13.0 million as of January 28, 2012 and $13.2 million as of October 29, 2011. All such provisions reflect the Company's estimates of the most likely cost (undiscounted, including both current and noncurrent portions) of resolving the contingencies, based on facts and circumstances as of the time they were made. There is no assurance that relevant facts and circumstances will not change, necessitating future changes to the provisions. Such contingent liabilities are included in the liability arising from provision for discontinued operations on the accompanying Condensed Consolidated Balance Sheets because it relates to former facilities operated by the Company. The Company has made pretax accruals for certain of these contingencies, including approximately $0.2 million reflected in each of the third quarters of Fiscal 2013 and 2012, and $0.6 million and $1.8 million reflected in the first nine months of Fiscal 2013 and 2012, respectively. These charges are included in provision for discontinued operations, net in the Condensed Consolidated Statements of Operations and represent changes in estimates.

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Note 8
Legal Proceedings, Continued

Other Matters
On December 10, 2010, the Company announced that it had suffered a criminal intrusion into the portion of its computer network that processes payments for transactions in certain of its retail stores. Visa, Inc., MasterCard Worldwide and American Express Travel Related Services Company, Inc. have asserted claims totaling approximately $15.6 million in connection with the intrusion. The Company disputes the validity of these claims and intends to contest them vigorously and thus has no liability accrual with respect to them. There can be no assurance that additional claims related to the intrusion will not be asserted by these or other parties in the future, but the Company does not currently expect any potential additional claims to have a material effect on its financial condition or results of operations.

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

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

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

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Note 9
Business Segment Information

During the nine months ended October 27, 2012, the Company operated five reportable business segments (not including corporate): (i) Journeys Group, comprised of the Journeys, Journeys Kidz, Shi by Journeys and Underground by Journeys retail footwear chains, catalog and e-commerce operations; (ii) Schuh Group, acquired in June 2011, comprised of the Schuh retail footwear chain and e-commerce operations; (iii) Lids Sports Group, comprised primarily of the Lids, Hat World and Hat Shack retail headwear stores, the Lids Locker Room and Lids Clubhouse fan shops (operated under various trade names), the Lids Team Sports business and certain e-commerce operations; (iv) Johnston & Murphy Group, comprised of Johnston & Murphy retail operations, catalog and e-commerce operations and wholesale distribution; and (v) Licensed Brands, comprised of Dockers® Footwear, sourced and marketed under a license from Levi Strauss & Company; SureGrip® Footwear, occupational footwear primarily sold directly to consumers; and other brands.

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

The Company's reportable segments are based on management's organization of the segments in order to make operating decisions and assess performance along types of products sold. Journeys Group, Schuh Group and Lids Sports Group sell primarily branded products from other companies while Johnston & Murphy Group and Licensed Brands sell primarily the Company's owned and licensed brands. As a result of combining the Underground Station Group with Journeys Group in the first quarter of Fiscal 2013, Journeys Group segment sales, operating income, total assets, depreciation and amortization and capital expenditures have been restated for the three months and nine months ended October 29, 2011 to conform to the current year presentation.

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

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Note 9
Business Segment Information, Continued

Three Months Ended October 27, 2012 In thousands	Journeys Group	Schuh Group	Lids Sports Group	Johnston & Murphy Group	Licensed Brands	Corporate & Other	Consolidated
Sales	$300,718	$92,250	$186,178	$53,081	$32,564	$224	$665,015
Intercompany Sales	—	—	(441)	(2)	(114)	—	(557)
Net sales to external customers	$300,718	$92,250	$185,737	$53,079	$32,450	$224	$664,458
Segment operating income (loss)	$37,073	$2,709	$18,573	$3,158	$3,724	$(12,502)	$52,735
Asset Impairments and other*	—	—	—	—	—	(357)	(357)
Earnings (loss) from operations	37,073	2,709	18,573	3,158	3,724	(12,859)	52,378
Interest expense	—	—	—	—	—	(1,342)	(1,342)
Interest income	—	—	—	—	—	41	41
Earnings (loss) from continuing operations before income taxes	$37,073	$2,709	$18,573	$3,158	$3,724	$(14,160)	$51,077
Total assets**	$338,095	$245,981	$559,741	$88,322	$42,301	$158,958	$1,433,398
Depreciation and amortization	4,945	2,419	6,678	934	98	577	15,651
Capital expenditures	6,464	5,211	6,414	1,326	34	883	20,332

*Asset Impairments and other includes a $0.3 million charge for asset impairments, of which $0.1 million is in the Lids Sports Group and $0.2 million is in the Journeys Group, and a $0.1 million charge for other legal matters.
**Total assets for the Lids Sports Group, Schuh Group and Licensed Brands include $168.8 million, $102.6 million and $0.8 million of goodwill, respectively.

Three Months Ended October 29, 2011 In thousands	Journeys Group	Schuh Group	Lids Sports Group	Johnston & Murphy Group	Licensed Brands	Corporate & Other	Consolidated
Sales	$274,158	78,212	$185,637	$48,146	$30,297	$203	$616,653
Intercompany Sales	—	—	(90)	—	(38)	—	(128)
Net sales to external customers	$274,158	$78,212	$185,547	$48,146	$30,259	$203	$616,525
Segment operating income (loss)	$28,238	$4,417	$18,892	$2,979	$3,700	$(11,969)	$46,257
Asset Impairments and other*	—	—	—	—	—	(345)	(345)
Earnings (loss) from operations	28,238	4,417	18,892	2,979	3,700	(12,314)	45,912

Interest expense	—	—	—	—	—	(1,885)	(1,885)
Interest income	—	—	—	—	—	16	16
Earnings (loss) from continuing operations before income taxes	$28,238	$4,417	$18,892	$2,979	$3,700	$(14,183)	$44,043
Total assets**	$321,535	225,491	$531,285	$85,309	$37,691	$158,435	$1,359,746
Depreciation and amortization	5,199	1,599	5,678	888	76	404	13,844
Capital expenditures	3,465	3,777	5,672	414	161	923	14,412

*Asset Impairments and other includes a $0.2 million charge for other legal matters and a $0.1 million charge for network intrusion costs.
**Total assets for the Lids Sports Group, Schuh Group and Licensed Brands include $159.0 million, $102.5 million and $0.8 million of goodwill, respectively.

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Note 9
Business Segment Information, Continued

Nine Months Ended October 27, 2012 In thousands	Journeys Group	Schuh Group	Lids Sports Group	Johnston & Murphy Group	Licensed Brands	Corporate & Other	Consolidated
Sales	$773,997	$243,718	$552,151	$152,780	$86,214	$914	$1,809,774
Intercompany Sales	—	—	(1,399)	(9)	(242)	—	(1,650)
Net sales to external customers	$773,997	$243,718	$550,752	$152,771	$85,972	$914	$1,808,124
Segment operating income (loss)	$64,420	$(787)	$58,312	$8,981	$8,516	$(33,206)	$106,236
Asset Impairments and other*	—	—	—	—	—	(896)	(896)
Earnings (loss) from operations	64,420	(787)	58,312	8,981	8,516	(34,102)	105,340
Interest expense	—	—	—	—	—	(3,691)	(3,691)
Interest income	—	—	—	—	—	66	66
Earnings (loss) from continuing operations before income taxes	$64,420	$(787)	$58,312	$8,981	$8,516	$(37,727)	$101,715
Total assets**	$338,095	$245,981	$559,741	$88,322	$42,301	$158,958	$1,433,398
Depreciation and amortization	14,902	7,192	19,385	2,745	256	1,715	46,195
Capital expenditures	15,279	13,106	16,186	4,901	616	2,777	52,865

*Asset Impairments and other includes a $0.7 million charge for asset impairments, of which $0.4 million is in the Lids Sports Group and $0.3 million is in the Journeys Group, a $0.1 million charge for network intrusion costs and a $0.1 million charge for other legal matters.
**Total assets for the Lids Sports Group, Schuh Group and Licensed Brands include $168.8 million, $102.6 million and $0.8 million of goodwill, respectively.

Nine Months Ended October 29, 2011 In thousands	Journeys Group	Schuh Group	Lids Sports Group	Johnston & Murphy Group	Licensed Brands	Corporate & Other	Consolidated
Sales	$703,368	112,185	$532,895	$141,768	$77,940	$824	$1,568,980
Intercompany Sales	—	—	(149)	—	(213)	—	(362)
Net sales to external customers	$703,368	$112,185	$532,746	$141,768	$77,727	$824	$1,568,618
Segment operating income (loss)	$41,821	$4,340	$51,002	$8,029	$7,998	$(38,166)	$75,024
Asset Impairments and other*	—	—	—	—	—	(1,936)	(1,936)
	41,821	4,340	51,002	8,029	7,998	(40,102)	73,088

Earnings (loss) from operations							
Interest expense	—	—	—	—	—	(3,498)	(3,498)
Interest income	—	—	—	—	—	34	34
Earnings (loss) from continuing operations before income taxes	$41,821	$4,340	$51,002	$8,029	$7,998	$(43,566)	$69,624
Total assets**	$321,535	225,491	$531,285	$85,309	$37,691	$158,435	$1,359,746
Depreciation and amortization	15,638	2,535	16,535	2,662	209	1,469	39,048
Capital expenditures	8,740	4,759	19,201	1,579	636	2,710	37,625

*Asset Impairments and other includes a $1.1 million charge for asset impairments, of which $0.6 million is in the Journeys Group, $0.3 million is in the Lids Sports Group and $0.2 million is in the Johnston & Murphy Group, a $0.5 million charge for network intrusion costs and a $0.3 million charge for other legal matters.
**Total assets for the Lids Sports Group, Schuh Group and Licensed Brands include $159.0 million, $102.5 million and $0.8 million of goodwill.

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

Forward Looking Statements

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

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

- Adjustments to estimates reflected in forward-looking statements, including the amount of required accruals related to the contingent bonus potentially payable to Schuh management in three years based on the achievement of certain performance objectives.
- The costs of responding to and liability in connection with the network intrusion described under “Significant Developments-Network Intrusion” including any claims or litigation resulting therefrom.
- The timing and amount of non-cash asset impairments, whether involving fixed assets of retail stores or intangible and other assets of acquired businesses.
- Weakness in the consumer economy.
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