GENESCO INC
Form 10-Q
September 13, 2007

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

(Mark One)

þ **Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934**
For Quarter Ended August 4, 2007

o **Transition Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934**
Commission File No. 1-3083
Genesco Inc.
A Tennessee Corporation
I.R.S. No. 62-0211340
Genesco Park
1415 Murfreesboro Road
Nashville, Tennessee 37217-2895
Telephone 615/367-7000

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (check one:)
Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

Common Shares Outstanding August 31, 2007 22,794,106

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PART I FINANCIAL INFORMATION
Item 1. Financial Statements
Genesco Inc.
and Subsidiaries
Condensed Consolidated Balance Sheets
(In Thousands, except share amounts)

	August 4, 2007	February 3, 2007	July 29, 2006
Assets			
Current Assets			
Cash and cash equivalents	**$ 22,129**	$ 16,739	$ 19,360
Accounts receivable, net of allowances of $2,044 at August 4, 2007, $1,910 at February 3, 2007 and $2,087 at July 29, 2006	**22,154**	24,084	19,293
Inventories	**347,574**	261,037	331,439
Deferred income taxes	**12,849**	12,940	8,907
Prepaids and other current assets	**41,761**	20,266	22,406
Total current assets	**446,467**	335,066	401,405
Property and equipment:			
Land	**4,861**	4,861	4,972
Buildings and building equipment	**16,423**	17,445	14,742
Computer hardware, software and equipment	**73,292**	72,404	66,135
Furniture and fixtures	**86,703**	82,542	71,543
Construction in progress	**19,234**	12,005	13,732
Improvements to leased property	**238,301**	222,493	207,412
Property and equipment, at cost	**438,814**	411,750	378,536
Accumulated depreciation	**(202,660)**	(189,416)	(174,117)
Property and equipment, net	**236,154**	222,334	204,419
Goodwill	**107,618**	107,651	96,235
Trademarks	**51,389**	51,361	47,675
Other intangibles, net of accumulated amortization of $6,798 at August 4, 2007, $6,096 at February 3, 2007 and $5,244 at July 29, 2006	**2,114**	2,816	3,342
Other noncurrent assets	**10,827**	10,145	9,033
Total Assets	**$ 854,569**	$ 729,373	$ 762,109

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

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

Liabilities and Shareholders Equity	August 4, 2007	February 3, 2007	July 29, 2006
Current Liabilities			
Accounts payable	**$ 119,727**	$ 65,083	$ 144,954
Accrued employee compensation	**13,269**	21,954	14,612
Accrued other taxes	**10,154**	9,829	9,514
Accrued income taxes	**-0-**	7,845	-0-
Other accrued liabilities	**27,380**	25,570	27,177
Provision for discontinued operations	**5,571**	4,455	3,909
Total current liabilities	**176,101**	134,736	200,166
Long-term debt	**188,220**	109,250	129,250
Pension liability	**11,786**	14,306	21,083
Deferred rent and other long-term liabilities	**72,691**	64,245	53,288
Provision for discontinued operations	**1,794**	1,610	1,802
Total liabilities	**450,592**	324,147	405,589
Commitments and contingent liabilities			
Shareholders Equity			
Non-redeemable preferred stock	**5,676**	6,602	6,648
Common shareholders equity:			
Common stock, $1 par value:			
Authorized: 80,000,000 shares			
Issued/Outstanding:			
August 4, 2007 23,277,262/22,788,798			
February 3, 2007 23,230,458/22,741,994			
July 29, 2006 23,360,219/22,871,755	**23,277**	23,230	23,360
Additional paid-in-capital	**113,510**	107,956	114,196
Retained earnings	**300,282**	306,622	255,525
Accumulated other comprehensive loss	**(20,911)**	(21,327)	(25,352)
Treasury shares, at cost	**(17,857)**	(17,857)	(17,857)
Total shareholders equity	**403,977**	405,226	356,520
Total Liabilities and Shareholders Equity	**$ 854,569**	$ 729,373	$ 762,109

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

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

	Three Months Ended		Six Months Ended	
	August 4, 2007	**July 29, 2006**	**August 4, 2007**	**July 29, 2006**
Net sales	**$ 327,977**	$ 304,301	**$ 662,628**	$ 619,319
Cost of sales	**164,358**	150,911	**327,165**	304,560
Selling and administrative expenses	**166,059**	140,619	**325,132**	282,485
Restructuring and other, net	**158**	480	**6,753**	589
(Loss) earnings from operations	**(2,598)**	12,291	**3,578**	31,685
Interest expense, net				
Interest expense	**3,059**	2,267	**5,481**	4,541
Interest income	**(59)**	(107)	**(79)**	(467)
Total interest expense, net	**3,000**	2,160	**5,402**	4,074
(Loss) earnings before income taxes from continuing operations	**(5,598)**	10,131	**(1,824)**	27,611
Income tax (benefit) provision	**(2,658)**	4,187	**(1,087)**	11,001
(Loss) earnings from continuing operations	**(2,940)**	5,944	**(737)**	16,610
Provision for discontinued operations, net	**(1,225)**	-0-	**(1,225)**	(189)
Net (Loss) Earnings	**$ (4,165)**	$ 5,944	**$ (1,962)**	$ 16,421
Basic (loss) earnings per common share:				
Continuing operations	**$ (.13)**	$ .26	**$ (.04)**	$ .72
Discontinued operations	**$ (.06)**	$ .00	**$ (.05)**	$ (.01)
Net (loss) earnings	**$ (.19)**	$ .26	**$ (.09)**	$ .71
Diluted (loss) earnings per common share:				
Continuing operations	**$ (.13)**	$ .24	**$ (.04)**	$ .65
Discontinued operations	**$ (.06)**	$ .00	**$ (.05)**	$ (.01)
Net (loss) earnings	**$ (.19)**	$ .24	**$ (.09)**	$ .64

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

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

	Three Months Ended		Six Months Ended	
	August 4, 2007	**July 29, 2006**	**August 4, 2007**	**July 29, 2006**
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net (loss) earnings	**$ (4,165)**	$ 5,944	**$ (1,962)**	$ 16,421
Tax benefit of stock options exercised	**(33)**	-0-	**(138)**	(158)
Adjustments to reconcile net (loss)/earnings to net cash used in operating activities:				
Depreciation	**10,935**	9,827	**21,801**	19,177
Deferred income taxes	**3,520**	(446)	**3,295**	(1,325)
Provision for losses on accounts receivable	**40**	197	**23**	254
Impairment of long-lived assets	**352**	460	**6,683**	548
Share-based compensation and restricted stock	**2,053**	1,806	**4,117**	3,505
Provision for discontinued operations	**2,011**	-0-	**2,011**	311
Other	**1,064**	338	**1,551**	883
Effect on cash of changes in working capital and other assets and liabilities:				
Accounts receivable	**1,392**	3,252	**1,886**	1,624
Inventories	**(65,155)**	(83,666)	**(86,537)**	(100,791)
Prepaids and other current assets	**(14,814)**	(893)	**(21,495)**	(778)
Accounts payable	**35,877**	47,859	**64,137**	60,656
Other accrued liabilities	**4,150**	(3,231)	**(14,239)**	(29,089)
Other assets and liabilities	**(823)**	2,776	**(2,403)**	1,848
Net cash used in operating activities	**(23,596)**	(15,777)	**(21,270)**	(26,914)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Capital expenditures	**(22,385)**	(17,343)	**(43,127)**	(36,413)
Acquisitions, net of cash acquired	**-0-**	-0-	**(34)**	-0-
Proceeds from assets sales	**6**	-0-	**6**	-0-
Net cash used in investing activities	**(22,379)**	(17,343)	**(43,155)**	(36,413)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Payments of capital leases	**(43)**	-0-	**(101)**	-0-
Tax benefit of stock options exercised	**33**	-0-	**138**	158
Shares repurchased	**-0-**	(11,729)	**-0-**	(11,729)

Change in overdraft balances	**(1,646)**	6,554	**(9,493)**	10,369
Borrowings under revolving credit facility	**98,000**	30,000	**187,000**	30,000
Payments on revolving credit facility	**(42,000)**	(7,000)	**(108,000)**	(7,000)
Dividends paid on non-redeemable preferred stock	**(54)**	(64)	**(118)**	(128)
Options exercised	**85**	-0-	**389**	566
Net cash provided by financing activities	**54,375**	17,761	**69,815**	22,236
Net Increase (Decrease) in Cash and Cash Equivalents	**8,400**	(15,359)	**5,390**	(41,091)
Cash and cash equivalents at beginning of period	**13,729**	34,719	**16,739**	60,451
Cash and cash equivalents at end of period	**$ 22,129**	$ 19,360	**$ 22,129**	$ 19,360
Supplemental Cash Flow Information:				
Net cash paid for:				
Interest	**$ 3,297**	$ 2,869	**$ 4,431**	$ 4,050
Income taxes	**12,408**	14,383	**26,340**	27,267

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

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

	Total Non-Redeemable Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Comprehensive Income (Loss)	Total Share-holders Equity
Balance January 28, 2006	**$6,695**	**$ 23,748**	**$ 123,137**	**$ 239,232**	**$(26,204)**	**$ (17,857)**		**$ 348,751**
Net earnings	-0-	-0-	-0-	67,646	-0-	-0-	$67,646	67,646
Dividends paid on non-redeemable preferred stock	-0-	-0-	-0-	(256)	-0-	-0-	-0-	(256)
Exercise of stock options	-0-	357	6,101	-0-	-0-	-0-	-0-	6,458
Issue shares Employee Stock Purchase Plan	-0-	10	311	-0-	-0-	-0-	-0-	321
Shares repurchased	-0-	(1,062)	(31,026)	-0-	-0-	-0-	-0-	(32,088)
Employee and non-employee restricted stock	-0-	182	3,164	-0-	-0-	-0-	-0-	3,346
Share-based compensation	-0-	-0-	4,067	-0-	-0-	-0-	-0-	4,067
Tax benefit of stock options exercised	-0-	-0-	2,405	-0-	-0-	-0-	-0-	2,405
Gain on foreign currency forward contracts (net of tax of $0.6 million)	-0-	-0-	-0-	-0-	848	-0-	848	848
Loss on interest rate swaps (net of tax benefit of $0.2 million)	-0-	-0-	-0-	-0-	(218)	-0-	(218)	(218)
Pension liability adjustment (net of tax of $3.2 million)	-0-	-0-	-0-	-0-	5,094	-0-	5,094	5,094
Cumulative adjustment to adopt SFAS	-0-	-0-	-0-	-0-	(802)	-0-	-0-	(802)

No. 158 (net of tax benefit of $0.5 million)								
Foreign currency translation adjustment	-0-	-0-	-0-	-0-	(45)	-0-	(45)	(45)
Other	(93)	(5)	(203)	-0-	-0-	-0-	-0-	(301)
Comprehensive income							$73,325	
Balance February 3, 2007	**6,602**	**23,230**	**107,956**	**306,622**	**(21,327)**	**(17,857)**		**405,226**
Cumulative effect of change in accounting principle (see Note 6)	-0-	-0-	-0-	(4,260)	-0-	-0-	-0-	(4,260)
Net loss	-0-	-0-	-0-	(1,962)	-0-	-0-	$(1,962)	(1,962)
Dividends paid on non-redeemable preferred stock	-0-	-0-	-0-	(118)	-0-	-0-	-0-	(118)
Exercise of stock options	-0-	19	370	-0-	-0-	-0-	-0-	389
Employee and non-employee restricted stock	-0-	-0-	2,334	-0-	-0-	-0-	-0-	2,334
Share-based compensation	-0-	-0-	1,783	-0-	-0-	-0-	-0-	1,783
Tax benefit of stock options exercised	-0-	-0-	138	-0-	-0-	-0-	-0-	138
Conversion of Series 3 preferred stock	(321)	7	314	-0-	-0-	-0-	-0-	-0-
Conversion of Series 4 preferred stock	(560)	8	552	-0-	-0-	-0-	-0-	-0-
Gain on foreign currency forward contracts (net of tax of $0.1 million)	-0-	-0-	-0-	-0-	103	-0-	103	103
Foreign currency translation adjustment	-0-	-0-	-0-	-0-	313	-0-	313	313
Other	(45)	13	63	-0-	-0-	-0-	-0-	31
Comprehensive loss*							$(1,546)	

Balance August 4, 2007	**$5,676**	**$ 23,277**	**$ 113,510**	**$ 300,282**	**$(20,911)**	**$ (17,857)**	**$ 403,977**

* Comprehensive income (loss) was $(4.1) million and $6.2 million for the second quarter ended August 4, 2007 and July 29, 2006, respectively.

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

Genesco Inc.
and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Note 1
Summary of Significant Accounting Policies
Interim Statements
The condensed consolidated financial statements contained in this report are unaudited but reflect all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the results for the interim periods of the fiscal year ending February 2, 2008 (Fiscal 2008) and of the fiscal year ended February 3, 2007 (Fiscal 2007). The results of operations for any interim period are not necessarily indicative of results for the full year. The interim financial statements should be read in conjunction with the financial statements and notes thereto included in the Company s Annual Report on Form 10-K.
Nature of Operations
The Company s businesses include the design or sourcing, marketing and distribution of footwear, principally under the *Johnston & Murphy* and *Dockers* brands and the operation at August 4, 2007 of 2,111 *Journeys, Journeys Kidz, Shi by Journeys, Johnston & Murphy, Underground Station, Jarman, Hat World, Lids, Hat Shack, Hat Zone, Head Quarters, Cap Connection* and *Lids Kids* retail footwear and headwear stores.
Principles of Consolidation
All subsidiaries are consolidated in the condensed consolidated financial statements. All significant intercompany transactions and accounts have been eliminated.
Use of Estimates
The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
Significant areas requiring management estimates or judgments include the following key financial areas:
Inventory Valuation
The Company values its inventories at the lower of cost or market.
In its wholesale operations, cost is determined using the first-in, first-out (FIFO) method. Market is determined using a system of analysis which evaluates inventory at the stock number level based on factors such as inventory turn, average selling price, inventory level, and selling prices reflected in future orders. The Company provides reserves when the inventory has not been marked down to market based on current selling prices or when the inventory is not turning and is not expected to turn at levels satisfactory to the Company.

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Genesco Inc.
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Notes to Condensed Consolidated Financial Statements
Note 1
Summary of Significant Accounting Policies, Continued

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

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

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

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

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 Note 3).

Genesco Inc.
and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Note 1
Summary of Significant Accounting Policies, Continued
Environmental and Other Contingencies
The Company is subject to certain loss contingencies related to environmental proceedings and other legal matters, including those disclosed in Note 9 to the Company s Condensed Consolidated Financial Statements. The Company monitors these matters on an ongoing basis and, on a quarterly basis, management reviews the Company s reserves and accruals in relation to each of them, adjusting provisions as management deems necessary in view of changes in available information. Changes in estimates of liability are reported in the periods when they occur. Consequently, management believes that its reserve in relation to each proceeding is a best estimate of probable loss connected to the proceeding, or in cases in which no best estimate is possible, the minimum amount in the range of estimated losses, based upon its analysis of the facts and circumstances as of the close of the most recent fiscal quarter. However, because of uncertainties and risks inherent in litigation generally and in environmental proceedings in particular, there can be no assurance that future developments will not require additional reserves to be set aside, that some or all reserves will be adequate or that the amounts of any such additional reserves or any such inadequacy will not have a material adverse effect upon the Company s financial condition or results of operations.
Revenue Recognition
Retail sales are recorded at the point of sale and are net of estimated returns and exclude sales taxes. Catalog and internet sales are recorded at time of delivery to the customer and are net of estimated returns. 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.
and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Note 1
Summary of Significant Accounting Policies, Continued

Income Taxes

As part of the process of preparing Condensed Consolidated Financial Statements, the Company is required to estimate its income taxes in each of the tax jurisdictions in which it operates. This process involves estimating actual current tax obligations together with assessing temporary differences resulting from differing treatment of certain items for tax and accounting purposes, such as depreciation of property and equipment and valuation of inventories. These temporary differences result in deferred tax assets and liabilities, which are included within the Condensed Consolidated Balance Sheets. The Company then assesses the likelihood that its deferred tax assets will be recovered from future taxable income. Actual results could differ from this assessment if adequate taxable income is not generated in future periods. To the extent the Company believes that recovery of an asset is at risk, valuation allowances are established. To the extent valuation allowances are established or increase the allowances in a period, the Company includes an expense within the tax provision in the Condensed Consolidated Statements of Operations. Income tax reserves are determined using the methodology established by FASB Interpretation 48, Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement 109 (FIN 48). FIN 48, which was adopted by the Company as of February 4, 2007, requires companies to assess each income tax position taken using a two step process. A determination is first made as to whether it is more likely than not that the position will be sustained, based upon the technical merits, upon examination by the taxing authorities. If the tax position is expected to meet the more likely than not criteria, the benefit recorded for the tax position equals the largest amount that is greater than 50% likely to be realized upon ultimate settlement of the respective tax position. Uncertain tax positions require determinations and estimated liabilities to be made based on provisions of the tax law which may be subject to change or varying interpretation. If the Company s determinations and estimates prove to be inaccurate, the resulting adjustments could be material to its future financial results. See Note 6 for additional information regarding income taxes.

Postretirement Benefits Plan Accounting

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

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Genesco Inc.
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Notes to Condensed Consolidated Financial Statements
Note 1
Summary of Significant Accounting Policies, Continued

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R) (SFAS No. 158) which requires companies to recognize the overfunded or underfunded status of postretirement benefit plans as an asset or liability in its Condensed Consolidated Balance Sheets and to recognize changes in that funded status in accumulated other comprehensive loss, net of tax, in the year in which the changes occur. This statement did not change the accounting for plans required by SFAS No. 87, Employers Accounting for Pensions and it did not eliminate any of the expanded disclosures required by SFAS No. 132(R). On February 3, 2007, the Company adopted the recognition and disclosure provisions of SFAS No. 158. As a result of the adoption of SFAS No. 158, the Company recognized a $0.8 million (net of tax) cumulative adjustment in accumulated other comprehensive loss in shareholders equity for Fiscal 2007 related to the Company s post-retirement medical and life insurance benefits. SFAS No. 158 also requires companies to measure the funded status of a plan as of the date of its fiscal year end. This requirement of SFAS No. 158 is not effective for the Company until Fiscal 2009. The Company is assessing the impact the adoption of the measurement date will have on its consolidated financial position and results of operations.

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

Share-Based Compensation

The Company has share-based compensation plans covering certain members of management and non-employee directors. Pursuant to SFAS No. 123 (revised 2004), Share-Based Payment (SFAS No. 123(R)), adopted on the first day of Fiscal 2007, the Company recognizes compensation expense for share-based payments based on the fair value of the awards. For the second quarter and six months of Fiscal 2008 and 2007, share-based compensation and restricted stock expense was $2.0 million, $1.8 million, $4.1 million and $3.5 million, respectively. The benefits of tax deductions in excess of recognized compensation expense are reported as a financing cash flow.

Genesco Inc.
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Notes to Condensed Consolidated Financial Statements
Note 1
Summary of Significant Accounting Policies, Continued

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

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

The Company granted zero and 2,351 stock options for the three months and six months ended August 4, 2007, respectively, at a weighted average exercise price of $42.82 and a weighted average fair value of $16.28. There were no stock options granted for the three months and six months ended July 29, 2006. During the three months and six months ended August 4, 2007, the Company issued zero shares and 3,547 shares, respectively, of employee restricted stock which vest over a four-year term and had a grant date fair value of $42.82. There were no shares of employee restricted stock issued for the three months and six months ended July 29, 2006. For the three months and six months ended August 4, 2007 and July 29, 2006, the Company issued zero shares, 6,761 shares, zero shares and 3,022 shares, respectively, of director retainer stock at a grant date fair value of $39.62 and $37.25, respectively.

Cash and Cash Equivalents

Included in cash and cash equivalents at August 4, 2007, February 3, 2007 and July 29, 2006 are cash equivalents of $0.3 million, $0.9 million and $0.8 million, respectively. Cash equivalents are highly-liquid financial instruments having an original maturity of three months or less. The majority of payments due from banks for customer credit card transactions process within 24 48 hours and are accordingly classified as cash and cash equivalents.

At August 4, 2007, February 3, 2007 and July 29, 2006, outstanding checks drawn on zero-balance accounts at certain domestic banks exceeded book cash balances at those banks by approximately $6.3 million, $15.8 million and $27.6 million, respectively. These amounts are included in accounts payable.

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Summary of Significant Accounting Policies, Continued
Concentration of Credit Risk and Allowances on Accounts Receivable

The Company s footwear wholesaling business sells 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. Two customers accounted for 11% each of the Company s trade receivables balance and no other customer accounted for more than 9% of the Company s trade receivables balance as of August 4, 2007.

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 company-specific factors. The Company also establishes allowances for sales returns, customer deductions and co-op advertising based on specific circumstances, historical trends and projected probable outcomes.

Property and Equipment

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

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

Leases

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

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

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The Company occasionally receives reimbursements from landlords to be used towards construction of the store the Company intends to lease. Leasehold improvements are recorded at their gross costs including items reimbursed by landlords. The reimbursements are amortized as a reduction of rent expense over the initial lease term. Tenant allowances of $24.1 million, $23.7 million and $22.0 million at August 4, 2007, February 3, 2007 and July 29, 2006, respectively, and deferred rent of $24.4 million, $22.3 million and $20.9 million at August 4, 2007, February 3, 2007 and July 29, 2006, respectively, are included in deferred rent and other long-term liabilities on the Condensed Consolidated Balance Sheets.

Goodwill and Other Intangibles

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

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

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

Cost of Sales

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

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.

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Summary of Significant Accounting Policies, Continued
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 $0.8 million and $0.7 million for the second quarter of Fiscal 2008 and Fiscal 2007, respectively, and $1.5 million and $1.4 million for the first six months of Fiscal 2008 and 2007, respectively.
Gift Cards
The Company has a gift card program that began in calendar 1999 for its Hat World operations and calendar 2000 for its footwear operations. The gift cards issued to date do not expire. As such, the Company recognizes income when: (i) the gift card is redeemed by the customer; or (ii) the likelihood of the gift card being redeemed by the customer for the purchase of goods in the future is remote and there are no related escheat laws (referred to as breakage). The gift card breakage rate is based upon historical redemption patterns and income is recognized for unredeemed gift cards in proportion to those historical redemption patterns.
The Company recognized income of $0.6 million in the fourth quarter of Fiscal 2007 due to the Company s belief that it had sufficient historical information to support the recognition of gift card breakage after a review of state escheat laws in which it operates. This initial recognition of gift card breakage was included as a reduction in restructuring and other, net on the Consolidated Statements of Operations. As of February 4, 2007 gift card breakage is recognized in revenues each period.
Buying, Merchandising and Occupancy Costs
The Company records buying, merchandising and occupancy costs in selling and administrative expense. Because the Company does not include these costs in cost of sales, the Company s gross margin may not be comparable to other retailers that include these costs in the calculation of gross margin.
Shipping and Handling Costs
Shipping and handling costs related to inventory purchased from suppliers is included in the cost of inventory and is charged to cost of sales in the period that the inventory is sold. All other shipping and handling costs are charged to cost of sales in the period incurred except for wholesale and unallocated retail costs of distribution, which are included in selling and administrative expenses.
Preopening Costs
Costs associated with the opening of new stores are expensed as incurred, and are included in selling and administrative expenses on the accompanying Condensed Consolidated Statements of Operations.

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Summary of Significant Accounting Policies, Continued
Store Closings and Exit Costs
From time to time, the Company makes strategic decisions to close stores or exit locations or activities. If stores or operating activities to be closed or exited constitute components, as defined by SFAS No. 144, and will not result in a migration of customers and cash flows, these closures will be considered discontinued operations when the related assets meet the criteria to be classified as held for sale, or at the cease-use date, whichever occurs first. The results of operations of discontinued operations are presented retroactively, net of tax, as a separate component on the Condensed Consolidated Statement of Operations, if material individually or cumulatively. To date, no store closings meeting the discontinued operations criteria have been material individually or cumulatively.
Assets related to planned store closures or other exit activities are reflected as assets held for sale and recorded at the lower of carrying value or fair value less costs to sell when the required criteria, as defined by SFAS No. 144, are satisfied. Depreciation ceases on the date that the held for sale criteria are met.
Assets related to planned store closures or other exit activities that do not meet the criteria to be classified as held for sale are evaluated for impairment in accordance with the Company s normal impairment policy, but with consideration given to revised estimates of future cash flows. In any event, the remaining depreciable useful lives are evaluated and adjusted as necessary.
Exit costs related to anticipated lease termination costs, severance benefits and other expected charges are accrued for and recognized in accordance with SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities.
Advertising Costs
Advertising costs are predominantly expensed as incurred. Advertising costs were $7.7 million and $7.2 million for the second quarter of Fiscal 2008 and 2007, respectively, and $16.3 million and $15.4 million for the first six months of Fiscal 2008 and 2007, respectively. Direct response advertising costs for catalogs are capitalized in accordance with the American Institute of Certified Public Accountants (AICPA) Statement of Position No. 93-7, Reporting on Advertising Costs. Such costs are amortized over the estimated future revenues realized from such advertising, not to exceed six months. The Condensed Consolidated Balance Sheets include prepaid assets for direct response advertising costs of $1.3 million, $1.1 million and $0.9 million at August 4, 2007, February 3, 2007 and July 29, 2006, respectively.
Consideration to Resellers
The Company does not have any written buy-down programs with retailers, but the Company has provided certain retailers with markdown allowances for obsolete and slow moving products that are in the retailer s inventory. The Company estimates these allowances and provides for them as reductions to revenues at the time revenues are recorded. Markdowns are negotiated with retailers and changes are made to the estimates as agreements are reached. Actual amounts for markdowns have not differed materially from estimates.

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Cooperative Advertising

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

Cooperative advertising costs recognized in selling and administrative expenses were $0.5 million and $0.6 million for the second quarter of Fiscal 2008 and 2007, respectively, and $1.3 million and $1.1 million for the first six months of Fiscal 2008 and 2007, respectively. During the first six months of Fiscal 2008 and 2007, 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 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.

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Vendor reimbursements of cooperative advertising costs recognized as a reduction of selling and administrative expenses were $1.8 million and $1.7 million for the second quarter of Fiscal 2008 and 2007, respectively, and $2.4 million and $2.3 million for the first six months of Fiscal 2008 and 2007, respectively. During the first six months of Fiscal 2008 and 2007, the Company s cooperative advertising reimbursements received were not in excess of the costs reimbursed.

Environmental Costs

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

Earnings Per Common Share

Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities to issue common stock were exercised or converted to common stock (see Note 8).

Other Comprehensive Income

SFAS No. 130, Reporting Comprehensive Income, requires, among other things, the Company s pension 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. The cumulative adjustment to adopt SFAS No. 158 is also included in accumulated other comprehensive loss net of tax. Accumulated other comprehensive loss at August 4, 2007 consisted of $20.8 million of cumulative pension liability adjustments, net of tax, $0.8 million cumulative adjustment to adopt SFAS No. 158, net of tax, cumulative net gains of $0.3 million on foreign currency forward contracts, net of tax, and a foreign currency translation adjustment of $0.4 million.

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Summary of Significant Accounting Policies, Continued
Business Segments
SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, requires that companies disclose operating segments based on the way management disaggregates the Company s operations for making internal operating decisions (see Note 11).
Derivative Instruments and Hedging Activities
SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, SFAS No. 137, Accounting for Derivative Instruments and Hedging Activities Deferral of the Effective Date of SFAS No. 133, SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities and SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities, (collectively SFAS No. 133) require an entity to recognize all derivatives as either assets or liabilities in the 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.
New Accounting Principles
In March 2006, the EITF reached a consensus on EITF Issue No. 06-3, How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (that is, gross versus net presentation), (EITF No. 06-3) which allows companies to adopt a policy of presenting taxes in the income statement on either a gross or net basis. Taxes within the scope of EITF No. 06-3 would include taxes that are imposed on a revenue transaction between a seller and a customer, for example, sales taxes, use taxes, value-added taxes and some types of excise taxes. EITF No. 06-3 was adopted effective February 4, 2007. EITF No. 06-3 did not impact the method for recording and reporting these sales taxes in the Company s Consolidated Financial Statements for the three months and six months ended August 4, 2007 and will have no impact in future periods as the Company s policy is to exclude all such taxes from revenue.

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Summary of Significant Accounting Policies, Continued

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 (fiscal year 2009 for the Company), and interim periods within those fiscal years. The Company is currently evaluating the impact that the adoption of SFAS No. 157 will have, if any, on its results of operations and financial position.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115 (SFAS No. 159). SFAS No. 159 allows companies to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 (fiscal year 2009 for the Company). The Company is currently evaluating the impact that the adoption of SFAS No. 159 will have, if any, on its results of operations and financial position.

Note 2
Acquisitions
Hat Shack Acquisition

On January 11, 2007, Hat World acquired 100% of the outstanding stock of Hat Shack, Inc. for a purchase price of $16.6 million plus debt assumed of $2.2 million funded from cash on hand. As of August 4, 2007, there were 49 Hat Shack retail headwear stores located primarily in the southeastern United States. The Company allocated $11.4 million of the purchase price to goodwill and $3.7 million to tradenames. The goodwill related to the Hat Shack acquisition is not deductible for tax purposes.

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Note 3
Restructuring and Other Charges and Discontinued Operations
Restructuring and Other Charges
In accordance with Company policy, assets are determined to be impaired when the revised estimated future cash flows are insufficient to recover the carrying costs. Impairment charges represent the excess of the carrying value over the fair value of those assets.
Asset impairment charges are reflected as a reduction of the net carrying value of property and equipment, and in restructuring and other, net in the accompanying Condensed Consolidated Statements of Operations.
The Company recorded a pretax charge to earnings of $0.2 million ($0.1 million net of tax) in the second quarter of Fiscal 2008. The charge was primarily for retail store asset impairments offset by an excise tax refund. The Company recorded a pretax charge to earnings of $6.8 million ($4.1 million net of tax) in the first six months of Fiscal 2008. The charge included $6.7 million of charges for retail store asset impairments, primarily in the Underground Station Group, and $0.3 million for the lease termination of one Hat World store, offset by a $0.2 million excise tax refund. The asset impairments, primarily in Underground Station stores, reflected deterioration in the urban footwear market. In addition, in May of 2007, the Company announced a plan to close or convert up to 57 underperforming urban stores, including 49 Underground Station Group stores and eight Hat World stores. See Forward-Looking Statements in Management s Discussion and Analysis of Financial Condition and Results of Operations.
The Company recorded a pretax charge to earnings of $0.5 million ($0.3 million net of tax) and $0.6 million ($0.4 million net of tax) in the second quarter and first six months, respectively, of Fiscal 2007, primarily for retail store asset impairments.
Discontinued Operations
Accrued Provision for Discontinued Operations

In thousands	**Facility Shutdown Costs**	**Other**	**Total**
Balance January 28, 2006	$ 5,710	$ 3	$ 5,713
Additional provision Fiscal 2007	988	-0-	988
Charges and adjustments, net	(633)	(3)	(636)
Balance February 3, 2007	6,065	-0-	6,065
Additional provision Fiscal 2008	2,011	-0-	2,011
Charges and adjustments, net	(711)	-0-	(711)
Balance August 4, 2007*	7,365	-0-	7,365
Current provision for discontinued operations	5,571	-0-	5,571
Total Noncurrent Provision for Discontinued Operations	**$ 1,794**	**$ -0-**	**$ 1,794**

* Includes a $7.7 million environmental provision, including

$5.5 million in current provision, for discontinued operations.

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Note 4
Inventories

In thousands	August 4, 2007	February 3, 2007
Raw materials	**$ 199**	$ 212
Wholesale finished goods	**36,849**	29,272
Retail merchandise	**310,526**	231,553
Total Inventories	**$ 347,574**	$ 261,037

Note 5
Derivative Instruments and Hedging Activities
In order to reduce exposure to foreign currency exchange rate fluctuations in connection with inventory purchase commitments for its Johnston & Murphy division, the Company enters into foreign currency forward exchange contracts for Euros to make Euro denominated payments with a maximum hedging period of twelve months. Derivative instruments used as hedges must be effective at reducing the risk associated with the exposure being hedged. The settlement terms of the forward contracts correspond with the payment terms for the merchandise inventories. As a result, there is no hedge ineffectiveness to be reflected in earnings. The notional amount of such contracts outstanding at August 4, 2007 and February 3, 2007 was $6.4 million and $8.0 million, respectively. Forward exchange contracts have an average remaining term of approximately two months. The gain based on spot rates under these contracts at August 4, 2007 was $0.2 million and the loss based on spot rates under these contracts at February 3, 2007 was $4,000. For the six months ended August 4, 2007 and July 29, 2006, the Company recorded an unrealized gain on foreign currency forward contracts of $0.2 million and $1.4 million, respectively, in accumulated other comprehensive loss, before taxes. The Company monitors the credit quality of the major national and regional financial institutions with which it enters into such contracts.
The Company estimates that the majority of net hedging 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 6
Accounting for Uncertainty in Income Taxes

In June 2006, the FASB issued FIN 48. This Interpretation clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. This Interpretation prescribes that a company should use a more-likely-than-not recognition threshold based on the technical merits of the tax position taken. Tax positions that meet the more-likely-than-not recognition threshold should be measured in order to determine the tax benefit to be recognized in the financial statements. FIN 48 is effective in fiscal years beginning after December 15, 2006.

Effective February 4, 2007, the Company adopted the provisions of FIN 48. As a result of the adoption of FIN 48, the Company recognized a $4.3 million increase in the liability for unrecognized tax benefits which, as required, was accounted for as a reduction to the February 4, 2007 balance of retained earnings. In addition, the following information required by FIN 48 is provided:

Unrecognized tax benefits were approximately $4.6 million and $8.2 million as of August 4, 2007 and February 4, 2007, respectively. Included in the unrecognized tax benefit balance was $4.6 million and $4.8 million of tax positions on August 4, 2007 and May 5, 2007, respectively, which if recognized would impact the annual effective tax rate. The change in the unrecognized tax benefit balance from February 4, 2007 to August 4, 2007, was due to the resolution of a state audit and the IRS approving the Company s filing of an application for change in accounting method. Upon approval, the Company reclassed approximately $3.4 million between unrecognized tax benefits and deferred taxes. While it is expected that the amount of unrecognized tax benefits will change in the next 12 months, we do not expect the change to have a material impact on the results of operations or the financial position of the Company.

The Company recognizes interest expense and penalties related to the above unrecognized tax benefits within income tax expense. The Company had accrued interest and penalties of approximately $1.1 million and $0.7 million, respectively, as of August 4, 2007 and approximately $1.7 million and $0.7 million, respectively, as of May 5, 2007. The approved change in accounting method described above resulted in an approximately $0.6 million decrease in accrued interest.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, many state jurisdictions and foreign jurisdictions. With a few exceptions, the Company s U.S. Federal and State and Local income tax returns for tax years 2004 and beyond remain subject to examination. In addition, the Company has subsidiaries in various foreign jurisdictions that have statutes of limitation generally ranging from three to six years.

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Note 6
Accounting for Uncertainty in Income Taxes, Continued

The provision for income taxes resulted in an effective tax rate for continuing operations of 59.6% for the first six months ended August 4, 2007, compared with an effective tax rate of 39.8% for the first six months ended July 29, 2006. The increase in the effective tax rate for the first six months of Fiscal 2008 was primarily attributable to non-deductible expenses incurred in connection with the proposed merger with a subsidiary of The Finish Line, Inc. and the accounting for uncertain tax positions (FIN 48) including but not limited to the approved change in accounting method.

Note 7
Defined Benefit Pension Plans and Other Benefit Plans
Components of Net Periodic Benefit Cost

	Pension Benefits Three Months Ended		**Other Benefits Three Months Ended**	
In thousands	**August 4, 2007**	July 29, 2006	**August 4, 2007**	July 29, 2006
Service cost	**$ 62**	$ 63	**$ 57**	$ 54
Interest cost	**1,612**	1,605	**52**	50
Expected return on plan assets	**(2,006)**	(1,944)	**-0-**	-0-
Amortization:				
Prior service cost	**2**	-0-	**-0-**	-0-
Losses	**1,171**	1,105	**18**	22
Net amortization	**1,173**	1,105	**18**	22
Net Periodic Benefit Cost	**$ 841**	$ 829	**$ 127**	$ 126

	Pension Benefits Six Months Ended		**Other Benefits Six Months Ended**	
In thousands	**August 4, 2007**	July 29, 2006	**August 4, 2007**	July 29, 2006
Service cost	**$ 125**	$ 126	**$ 114**	$ 108
Interest cost	**3,227**	3,213	**104**	100
Expected return on plan assets	**(4,012)**	(3,892)	**-0-**	-0-
Amortization:				
Prior service cost	**4**	-0-	**-0-**	-0-
Losses	**2,076**	2,270	**36**	44
Net amortization	**2,080**	2,270	**36**	44
Net Periodic Benefit Cost	**$ 1,420**	$ 1,717	**$ 254**	$ 252

While there was no cash requirement projected for the plan in 2007, the Company made a $4.0 million contribution to the Plan in March 2007.

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Note 8
Earnings Per Share

	For the Three Months Ended August 4, 2007			For the Three Months Ended July 29, 2006		
(In thousands, except per share amounts)	**Income (Numerator)**	**Shares (Denominator)**	**Per-Share Amount**	**Income (Numerator)**	**Shares (Denominator)**	**Per-Share Amount**
(Loss) earnings from continuing operations	**$ (2,940)**			$ 5,944		
Less: Preferred stock dividends	**(54)**			(64)		
Basic EPS						
(Loss) income available to common shareholders	**(2,994)**	**22,415**	**$ (.13)**	5,880	22,988	$ .26
Effect of Dilutive Securities						
Options		**-0-**			393	
Convertible preferred stock[1]	**-0-**	**-0-**		-0-	-0-	
4 1/8% Convertible Subordinated Debentures	**-0-**	**-0-**		604	3,899	
Employees preferred stock[2]		**-0-**			60	
Diluted EPS						
(Loss) income available to common shareholders plus assumed conversions	**$ (2,994)**	**22,415**	**$ (.13)**	$ 6,484	27,340	$ .24

(1) The amount of the dividend on the convertible preferred stock per common share obtainable on conversion of the convertible preferred stock is higher than

basic earnings per share for all periods presented. Therefore, conversion of the convertible preferred stock is 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 29,161, 30,483 and 5,440, respectively.

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

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Note 8
Earnings Per Share, Continued

(In thousands, except per share amounts)	For the Six Months Ended August 4, 2007			For the Six Months Ended July 29, 2006		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
(Loss) earnings from continuing operations	**$ (737)**			$ 16,610		
Less: Preferred stock dividends	**(118)**			(128)		
Basic EPS						
(Loss) income available to common shareholders	**(855)**	**22,403**	**$ (.04)**	16,482	23,015	$ .72
Effect of Dilutive Securities						
Options		**-0-**			414	
Convertible preferred stock[1]	**-0-**	**-0-**		-0-	-0-	
4 1/8% Convertible Subordinated Debentures	**-0-**	**-0-**		1,207	3,899	
Employees preferred stock[2]		**-0-**			60	
Diluted EPS						
(Loss) income available to common shareholders plus assumed conversions	**$ (855)**	**22,403**	**$ (.04)**	$ 17,689	27,388	$ .65

(1) The amount of the dividend on the convertible preferred stock per common share obtainable on conversion of the convertible preferred stock is higher than

basic earnings per share for all periods presented. Therefore, conversion of the convertible preferred stock is 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 29,161, 30,483 and 5,440, respectively.

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

The weighted shares outstanding reflects the effect of stock buy back programs. In a series of authorizations from Fiscal 1999-2003, the Company s board of directors authorized the repurchase of up to 7.5 million shares. In June 2006, the board authorized an additional $20.0 million in stock repurchases. In August 2006, the board authorized an additional $30.0 million in stock repurchases. The Company repurchased 1,062,400 shares at a cost of $32.1 million during Fiscal 2007. The Company did not repurchase any shares during the six months ended August 4, 2007. In total, the Company has repurchased 8.2 million shares at a cost of $103.4 million from all authorizations from Fiscal 1999 to August 4, 2007.

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Note 9
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 remediation 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 concluded the IRM and the RIFS. In the course of preparing the RIFS, the Company identified remedial alternatives with estimated undiscounted costs ranging from $-0- to $24.0 million, excluding amounts previously expended or provided for by the Company, as described in this footnote. The United States Environmental Protection Agency (EPA), which has assumed primary regulatory responsibility for the site from NYSDEC, adopted a Proposed Remedial Action Plan (PRAP) in February 2007. The PRAP, which is subject to modification, recommends a combination of groundwater extraction and treatment and in-site chemical oxidation at an estimated present worth cost of approximately $10.7 million.

The Company has not ascertained what responsibility, if any, it has for any contamination in connection with the facility or what other parties may be liable in that connection and is unable to predict the extent of its liability, if any, beyond that voluntarily assumed by the consent order. The Company s voluntary assumption of certain responsibility to date was based upon its judgment that such action was preferable to litigation to determine its liability, if any, for contamination related to the site. The Company intends to continue to evaluate the costs of further voluntary remediation versus the costs and uncertainty of litigation.

As part of its analysis of whether to undertake further voluntary action, the Company has assessed various methods of preventing potential future impact of contamination from the site on two public wells that are in the expected future path of the groundwater plume from the site. The Village of Garden City has proposed the installation at the supply wells of enhanced treatment measures at an estimated cost of approximately $2.6 million, with estimated future costs of up to $2.0 million. In the third quarter of Fiscal 2005, the Company provided for the estimated cost of a remedial alternative it considers adequate to prevent such impact and which it would be willing to implement voluntarily. The Village of Garden City has also asserted that the Company is liable for historical costs of treatment at the wells totaling approximately $3.4 million. Because of evidence with regard to when contaminants from the site of the Company s former operations first reached the wells, the Company believes it should have no liability with respect to such historical costs.

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Legal Proceedings, Continued

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 New York State. The sites were used as landfills for process wastes generated by a glue manufacturer, which acquired tannery wastes from several tanners, allegedly including the Company s Whitehall tannery, for use as raw materials in the gluemaking process. The Company has no records indicating that it ever provided raw materials to the gluemaking operation and has not been able to establish whether EPA s substantive allegations are accurate. The Company has joined a joint defense group with other tannery PRP s with respect to one of the two sites. The joint defense group has developed an estimated cost of remediation for the site and proposed an allocation of liabilities among the PRP s that, if accepted, is estimated to result in liability to the Company of approximately $100,000 with respect to the site. There is no assurance that the proposed allocation will be accepted or that the actual cost of remediation will not exceed the estimate. While the Company presently cannot predict with assurance its liability, if any, with respect to the second site associated with the glue manufacturer s waste disposal, it does not presently expect that its aggregate exposure with respect to the 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.

The Company has submitted to the Michigan Department of Environmental Quality (MDEQ) and provided for certain costs associated with a remedial action plan (the Plan) designed to bring the property into compliance with regulatory standards for non-industrial uses and has subsequently engaged in negotiations regarding the scope of the Plan. The Company estimates that the costs of resolving environmental contingencies related to the Whitehall property range from $4.6 million to $5.1 million, and considers the cost of implementing the Plan, as it is modified in the course of negotiations with MDEQ, to be the most likely cost within that range. Until the Plan is finally approved by MDEQ, management cannot provide assurances that no further remediation will be required or that its estimate of the range of possible costs or of the most likely cost of remediation will prove accurate.

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Legal Proceedings, Continued
Accrual for Environmental Contingences
Related to all outstanding environmental contingencies, the Company had accrued $7.7 million as of August 4, 2007, $5.8 million as of February 3, 2007 and $5.5 million as of July 29, 2006. 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.
Other Matters
California Employment Matters
On November 4, 2005, a former employee gave notice to the California Labor Work Force Development Agency (LWDA) of a claim against the Company for allegedly failing to provide a payroll check that is negotiable and payable in cash, on demand, without discount, at an established place of business in California, as required by the California Labor Code. On May 18, 2006, the same claimant filed a putative class, representative and private attorney general action alleging the same violations of the Labor Code in the Superior Court of California, Alameda County, seeking statutory penalties, damages, restitution, and injunctive relief. The Company disputes the material allegations of the complaint and will continue to defend the matter vigorously.
Tennessee Shareholder Suit
On April 24, 2007, a putative class action, *Maxine Phillips, on Behalf of Herself and All Others Similarly Situated vs. Genesco Inc., et al.,* was filed in the Tennessee Chancery Court in Nashville. The complaint alleges, among other things, that the individual defendants (officers and directors of the Company) refused to consider properly the proposal by Foot Locker, Inc. to acquire the Company. The complaint seeks class certification, a declaration that defendants have breached their fiduciary and other duties, an order requiring defendants to implement a process to obtain the highest possible price for shareholders shares, and an award of costs and attorney s fees. The defendants have not filed a response to the complaint as of the date of this report. Following the execution of the merger agreement with The Finish Line Inc. (Finish Line), plaintiff s counsel indicated, and continues to indicate, that plaintiff intends to file an amended complaint alleging breach of fiduciary duties by the individual defendants in connection with the board of directors approval of the merger agreement and the disclosures made in the preliminary proxy statement related to the merger and seeking injunctive relief. The Company and the individual defendants reached an agreement with plaintiff under which the Company agreed to include certain additional disclosures in its definitive proxy statement related to the merger which was filed on August 13, 2007. The parties are seeking to finalize and execute a Memorandum of Understanding to formalize the settlement. Under the terms of the Memorandum, the Company would pay $450,000 in attorneys fees and expenses if the settlement and payment of fees are approved by the Court and certain other conditions, including the consummation of the merger with Finish Line, Inc., occur.

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Patent Action
The Company is named as a defendant in *Paul Ware and Financial Systems Innovation, L.L.C. v. Abercrombie & Fitch Stores, Inc., et al.,* filed on June 19, 2007, in the United States District Court for the Northern District of Georgia, against more than 100 retailers. The suit alleges that the defendants have infringed U.S. Patent No. 4,707,592 by using a feature of their retail point of sale registers to generate transaction numbers for credit card purchases. The complaint seeks treble damages in an unspecified amount and attorneys fees. The Company has not yet been served with the complaint and has not reached a conclusion as to the allegations in the complaint or what, if any, liability it may have in connection with the matter.
Note 10
Proposed Merger Agreement
The Company announced in June 2007 that the boards of directors of both Genesco and Finish Line had unanimously approved a definitive merger agreement under which The Finish Line, Inc. would acquire all of the outstanding common shares of Genesco for $54.50 per share in cash. The total transaction value is approximately $1.5 billion (the Proposed Merger). The Proposed Merger is subject to customary closing conditions, including approval by Genesco shareholders. A special meeting of shareholders to consider approval of the Proposed Merger and related matters is scheduled for September 17, 2007. During the second quarter and six months ended August 4, 2007, the Company expensed $5.4 million and $5.5 million, respectively, related to the Proposed Merger. Finish Line has advised us that they expect to obtain the financing necessary to close the transaction in the third week of October. While the timeline could change, we contemplate closing around that time.

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Business Segment Information
The Company operates five reportable business segments (not including corporate): Journeys Group, comprised of the Journeys, Journeys Kidz and Shi by Journeys retail footwear chains, catalog and e-commerce operations; Underground Station Group, comprised of the Underground Station and Jarman retail footwear chains and e-commerce operations; Hat World Group, comprised of the Hat World, Lids, Hat Shack, Hat Zone, Head Quarters, Cap Connection and Lids Kids retail headwear chains and e-commerce operations; Johnston & Murphy Group, comprised of Johnston & Murphy retail operations, catalog and e-commerce operations and wholesale distribution; and Licensed Brands, comprised primarily of Dockers® Footwear.
The accounting policies of the segments are the same as those described in the summary of significant accounting policies.
The Company s reportable segments are based on the way management organizes the segments in order to make operating decisions and assess performance along types of products sold. Journeys Group, Underground Station Group and Hat World Group sell primarily branded products from other companies while Johnston & Murphy Group and Licensed Brands sell primarily the Company s owned and licensed brands.
Corporate assets include cash, deferred income taxes, deferred note expense and corporate fixed assets. The Company charges allocated retail costs of distribution to each segment and unallocated retail costs of distribution to the corporate segment. The Company does not allocate certain costs to each segment in order to make decisions and assess performance. These costs include corporate overhead, stock compensation, interest expense, interest income, restructuring charges and other, including litigation.

Three Months Ended August 4, 2007 In thousands	**Journeys Group**	**Underground Station Group**	**Hat World Group**	**Johnston & Murphy Group**	**Licensed Brands**	**Corporate & Other**	**Consolidated**
Sales	$ 148,091	$ 24,520	$ 90,460	$ 45,657	$ 19,117	$ 190	$ 328,035
Intercompany sales	-0-	-0-	-0-	-0-	(58)	-0-	(58)
Net sales to external customers	$ 148,091	$ 24,520	$ 90,460	$ 45,657	$ 19,059	$ 190	$ 327,977
Segment operating income (loss)	$ 983	$ (4,893)	$ 7,418	$ 3,612	$ 2,281	$ (11,841)	$ (2,440)
Restructuring and other	-0-	-0-	-0-	-0-	-0-	(158)	(158)
Earnings (loss) from operations	983	(4,893)	7,418	3,612	2,281	(11,999)	(2,598)
Interest expense	-0-	-0-	-0-	-0-	-0-	(3,059)	(3,059)
Interest income	-0-	-0-	-0-	-0-	-0-	59	59
Earnings (loss) before income taxes from continuing operations	$ 983	$ (4,893)	$ 7,418	$ 3,612	$ 2,281	$ (14,999)	$ (5,598)

Total assets	**$ 272,309**	**$ 51,884**	**$ 308,075**	**$ 74,481**	**$ 27,561**	**$ 120,259**	**$ 854,569**
Depreciation	**4,585**	**933**	**3,193**	**815**	**20**	**1,389**	**10,935**
Capital expenditures	**10,257**	**326**	**8,561**	**2,382**	**34**	**825**	**22,385**

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Three Months Ended July 29, 2006 In thousands	**Journeys Group**	**Underground Station Group**	**Hat World Group**	**Johnston & Murphy Group**	**Licensed Brands**	**Corporate & Other**	**Consolidated**
Sales	$ 136,669	$ 30,917	$ 78,506	$ 41,916	$ 16,226	$ 177	$ 304,411
Intercompany sales	-0-	-0-	-0-	-0-	(110)	-0-	(110)
Net sales to external customers	$ 136,669	$ 30,917	$ 78,506	$ 41,916	$ 16,116	$ 177	$ 304,301
Segment operating income (loss)	$ 7,935	$ (1,747)	$ 8,617	$ 2,484	$ 1,335	$ (5,853)	$ 12,771
Restructuring and other	-0-	-0-	-0-	-0-	-0-	(480)	(480)
Earnings (loss) from operations	7,935	(1,747)	8,617	2,484	1,335	(6,333)	12,291
Interest expense	-0-	-0-	-0-	-0-	-0-	(2,267)	(2,267)
Interest income	-0-	-0-	-0-	-0-	-0-	107	107
Earnings (loss) before income taxes from continuing operations	$ 7,935	$ (1,747)	$ 8,617	$ 2,484	$ 1,335	$ (8,493)	$ 10,131
Total assets	$ 249,207	$ 67,514	$ 263,946	$ 63,911	$ 22,854	$ 94,677	$ 762,109
Depreciation	3,950	1,136	2,623	723	16	1,379	9,827
Capital expenditures	6,544	1,201	6,390	1,065	13	2,130	17,343

Six Months Ended August 4, 2007 In thousands	**Journeys Group**	**Underground Station Group**	**Hat World Group**	**Johnston & Murphy Group**	**Licensed Brands**	**Corporate & Other**	**Consolidated**
Sales	**$ 304,012**	**$ 54,330**	**$ 169,304**	**$ 91,951**	**$ 42,848**	**$ 443**	**$ 662,888**
Intercompany sales	**-0-**	**-0-**	**-0-**	**-0-**	**(260)**	**-0-**	**(260)**
Net sales to external customers	**$ 304,012**	**$ 54,330**	**$ 169,304**	**$ 91,951**	**$ 42,588**	**$ 443**	**$ 662,628**
	$ 11,800	**$ (7,061)**	**$ 10,070**	**$ 8,082**	**$ 5,360**	**$ (17,920)**	**$ 10,331**

Segment operating income (loss)							
Restructuring and other	**-0-**	**-0-**	**-0-**	**-0-**	**-0-**	**(6,753)**	**(6,753)**
Earnings (loss) from operations	**11,800**	**(7,061)**	**10,070**	**8,082**	**5,360**	**(24,673)**	**3,578**
Interest expense	**-0-**	**-0-**	**-0-**	**-0-**	**-0-**	**(5,481)**	**(5,481)**
Interest income	**-0-**	**-0-**	**-0-**	**-0-**	**-0-**	**79**	**79**
Earnings (loss) before income taxes from continuing operations	**$ 11,800**	**$ (7,061)**	**$ 10,070**	**$ 8,082**	**$ 5,360**	**$ (30,075)**	**$ (1,824)**
Total assets	**$ 272,309**	**$ 51,884**	**$ 308,075**	**$ 74,481**	**$ 27,561**	**$ 120,259**	**$ 854,569**
Depreciation	**8,997**	**2,075**	**6,250**	**1,596**	**40**	**2,843**	**21,801**
Capital expenditures	**21,596**	**970**	**15,384**	**3,938**	**60**	**1,179**	**43,127**

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Six Months Ended July 29, 2006 In thousands	**Journeys Group**	**Underground Station Group**	**Hat World Group**	**Johnston & Murphy Group**	**Licensed Brands**	**Corporate & Other**	**Consolidated**
Sales	$ 278,169	$ 70,873	$ 149,194	$ 85,947	$ 35,477	$ 221	$ 619,881
Intercompany sales	-0-	-0-	-0-	-0-	(562)	-0-	(562)
Net sales to external customers	$ 278,169	$ 70,873	$ 149,194	$ 85,947	$ 34,915	$ 221	$ 619,319
Segment operating income (loss)	$ 21,086	$ 658	$ 14,624	$ 5,307	$ 3,064	$ (12,465)	$ 32,274
Restructuring and other	-0-	-0-	-0-	-0-	-0-	(589)	(589)
Earnings (loss) from operations	21,086	658	14,624	5,307	3,064	(13,054)	31,685
Interest expense	-0-	-0-	-0-	-0-	-0-	(4,541)	(4,541)
Interest income	-0-	-0-	-0-	-0-	-0-	467	467
Earnings (loss) before income taxes from continuing operations	$ 21,086	$ 658	$ 14,624	$ 5,307	$ 3,064	$ (17,128)	$ 27,611
Total assets	$ 249,207	$ 67,514	$ 263,946	$ 63,911	$ 22,854	$ 94,677	$ 762,109
Depreciation	7,647	2,235	5,118	1,408	29	2,740	19,177
Capital expenditures	15,953	2,790	12,056	2,465	27	3,122	36,413

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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, the Proposed Merger (as defined below) 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 and a number of factors may adversely affect the forward looking statements and the Company s future results, liquidity, capital resources or prospects. These factors (some of which are beyond the Company s control) include:

Uncertainty regarding the Proposed Merger.

The Company s ability to negotiate acceptable lease terminations and otherwise to execute its previously announced store closing plan on schedule and at expected expense levels.

Weakness in consumer demand for products sold by the Company, including weakness caused by the availability of consumer debt and consumer confidence.

Fashion trends that affect the sales or product margins of the Company s retail product offerings.

Changes in the timing of holidays or in the onset of seasonal weather affecting period to period sales comparisons.

Changes in buying patterns by significant wholesale customers.

Disruptions in product supply or distribution.

Unfavorable trends in foreign exchange rates and other factors affecting the cost of products.

Changes in business strategies by the Company s competitors (including pricing and promotional discounts), the entry of additional competitors into the Company s markets, and other competitive factors.

The Company s ability to open, staff and support additional retail stores on schedule and at acceptable expense levels and to renew leases in existing stores on schedule and at acceptable expense levels.

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

The outcome of litigation and environmental matters involving the Company, including those discussed in Note 9 to the Condensed Consolidated Financial Statements.

Fluctuations in oil prices causing changes in gasoline and energy prices, resulting in changes in consumer spending and utility and product costs.

In addition to the risks referenced above, additional risks are highlighted in the Company s Annual Report on Form 10-K for the year ended February 3, 2007 and this Quarterly Report under the heading Item 1A. Risk Factors. Forward-looking statements reflect the expectations of the Company at the time they are made, and investors should rely on them only as expressions of opinion about what may happen in the future and only at the time they are made. The Company undertakes no obligation to update any forward-looking statement. Although the Company believes it has an appropriate business strategy and the resources necessary for its operations, predictions about future revenue and margin trends are inherently uncertain and the Company may alter its business strategies to address changing conditions.

Overview

Description of Business

The Company is a leading retailer of branded footwear and of licensed and branded headwear, operating 2,111 retail footwear and headwear stores throughout the United States and Puerto Rico including 28 headwear stores in Canada as of August 4, 2007. The Company also designs, sources, markets and distributes footwear under its own Johnston & Murphy brand and under the licensed Dockers® brand to more than 1,025 retail accounts in the United States, including a number of leading department, discount, and specialty stores.

The Company operates five reportable business segments (not including corporate): Journeys Group, comprised of the Journeys, Journeys Kidz and Shi by Journeys retail footwear chains, catalog and e-commerce operations; Underground Station Group, comprised of the Underground Station and Jarman retail footwear chains and e-commerce operations; Hat World Group, comprised of the Hat World, Lids, Hat Shack, Hat Zone, Head Quarters, Cap Connection and Lids Kids retail headwear chains and e-commerce operations; Johnston & Murphy Group, comprised of Johnston & Murphy retail operations, catalog and e-commerce operations and wholesale distribution; and Licensed Brands, comprised primarily of Dockers® Footwear.

The Journeys retail footwear stores sell footwear and accessories primarily for 13 to 22 year old men and women. The stores average approximately 1,825 square feet. The Journeys Kidz retail footwear stores sell footwear primarily for younger children, ages five to 12. These stores average approximately 1,400 square feet. Shi by Journeys retail footwear stores, the first of which opened in November 2005, sell footwear and accessories to fashionable women in their early 20 s to mid 30 s. These stores average approximately 2,050 square feet.

The Underground Station Group retail footwear stores sell footwear and accessories primarily for men and women in the 20 to 35 age group. The Underground Station Group stores average approximately 1,750 square feet. In May of 2007, the Company announced a plan to close or convert up to 57 underperforming stores, primarily in the Underground Station Group, due to the deterioration in the urban market. The targeted stores include 49 Underground Station Group stores. In the fourth quarter of Fiscal 2004, the Company made the strategic decision to close 34 Jarman stores subject to its ability to negotiate lease terminations. These stores are not suitable for conversion to Underground Station stores. The Company intends to convert the remaining Jarman stores to Underground Station stores and close the remaining Jarman stores not closed to date as quickly as it is financially feasible, subject to landlord approval. During the six months ended August 4, 2007, three Jarman stores were closed and one Jarman store was converted to an Underground Station store. During Fiscal 2007, 16 Jarman stores were closed and three Jarman stores were converted to Underground Station stores.

The Hat World, Lids, Hat Shack, Hat Zone, Head Quarters and Cap Connection retail stores and kiosks sell licensed and branded headwear to men and women primarily in the early-teens to mid-20 s age group. Hat World also operates Lids Kids, offering licensed and branded headwear, apparel and accessories to youth ages 0 to 10 years old. The Hat World Group locations average approximately 775 square feet and are primarily in malls, airports, street level stores and factory outlet stores throughout the United States, Puerto Rico and in Canada.

Johnston & Murphy retail shops sell a broad range of men s footwear and accessories. These shops average approximately 1,375 square feet and are located primarily in better malls nationwide. Johnston & Murphy shoes are also distributed through the Company s wholesale operations to better department and independent specialty stores. In addition, the Company sells Johnston &

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Murphy footwear and accessories in factory stores located in factory outlet malls. These stores average approximately 2,375 square feet.

The Company entered into an exclusive license with Levi Strauss and Company to market men s footwear in the United States under the Dockers® brand name in 1991. The Dockers license agreement was renewed November 1, 2006. The Dockers license agreement, as amended, expires on December 31, 2009 with a Company option to renew through December 31, 2012, subject to certain conditions. The Company uses the Dockers name to market casual and dress casual footwear to men aged 30 to 55 through many of the same national retail chains that carry Dockers slacks and sportswear and in department and specialty stores across the country.

Strategy

The Company s strategy has been to seek long-term, organic growth by: 1) increasing the Company s store base, 2) increasing retail square footage, 3) improving comparable store sales, 4) increasing operating margin and 5) enhancing the value of its brands. Our future results are subject to various risks, uncertainties and other challenges, including those discussed under the caption Forward Looking Statements, above and those discussed in Item 1A., Risk Factors in the Company s Annual Report on Form 10-K for the year ended February 3, 2007. Generally, the Company attempts to develop strategies to mitigate all the risks it views as material, including those discussed in Item 1A, Risk Factors. Among the most important of these factors are those related to consumer demand. Conditions in the external economy can affect demand, resulting in changes in sales and, as prices are adjusted to drive sales and control inventories, in gross margins. Because fashion trends influencing many of the Company s target customers (particularly customers of Journeys Group, Underground Station Group and Hat World Group) can change rapidly, the Company believes that its ability to react quickly to those changes has been important to its success. Even when the Company succeeds in aligning its merchandise offerings with consumer preferences, those preferences may affect results by, for example, driving sales of products with lower average selling prices. Moreover, economic factors, such as high fuel prices, may reduce the consumer s disposable income and reduce demand for the Company s merchandise, regardless of the Company s skill in detecting and responding to fashion trends. The Company believes its experience and discipline in merchandising and the buying power associated with its relative size in the industry are important to its ability to mitigate risks associated with changing customer preferences and other reductions in consumer demand. Also important to the Company s long-term prospects are the availability and cost of appropriate locations for the Company s retail concepts. The Company is opening stores in airports and on street locations in major cities and tourist venues, among other locations, in an effort to broaden its selection of locations for additional stores beyond the malls that have traditionally been the dominant venue for its retail concepts.

Summary of Operating Results

The Company s net sales increased 7.8% during the second quarter of Fiscal 2008 compared to the second quarter of Fiscal 2007. The increase was driven primarily by the addition of new stores, an 18% increase in Licensed Brands sales and an 18% increase in Johnston & Murphy wholesale sales. Gross margin decreased slightly as a percentage of net sales during the second quarter of Fiscal 2008, primarily due to margin decreases in the Journeys Group, Underground Station Group and Hat World Group. Selling and administrative expenses increased as a percentage of net sales during the second quarter of Fiscal 2008, reflecting increases in Journeys Group, Underground Station Group, Hat World Group and Johnston & Murphy Group as well as an additional $5.4 million of expense related to the Proposed Merger. Earnings from operations decreased as a percentage of net sales during the second quarter of Fiscal 2008, primarily due to decreased

earnings from operations in the Journeys Group, Underground Station Group and Hat World Group, partially offset by an increase in operating income in the Johnston & Murphy Group and Licensed Brands.

Significant Developments

Proposed Merger Agreement

The Company announced in June 2007 that the boards of directors of both Genesco and The Finish Line, Inc. (Finish Line) had unanimously approved a definitive merger agreement under which Finish Line would acquire all of the outstanding common shares of Genesco for $54.50 per share in cash. The total transaction value is approximately $1.5 billion (the Proposed Merger). The Proposed Merger is subject to customary closing conditions, including approval by Genesco shareholders. A special meeting of shareholders to consider approval of the Proposed Merger and related matters is scheduled for September 17, 2007. During the second quarter and six months ended August 4, 2007, the Company expensed $5.4 million and $5.5 million, respectively, related to the Proposed Merger. Finish Line has advised us that they expect to obtain the financing necessary to close the transaction in the third week of October. While the timeline could change, we contemplate closing around that time.

Restructuring and Other Charges

The Company recorded a pretax charge to earnings of $0.2 million ($0.1 million net of tax) in the second quarter of Fiscal 2008. The charge was primarily for retail store asset impairments offset by an excise tax refund. The Company recorded a pretax charge to earnings of $6.8 million ($4.1 million net of tax) in the first six months of Fiscal 2008. The charge included $6.7 million of charges for retail store asset impairments, primarily in the Underground Station Group, and $0.3 million for the lease termination of one Hat World store, offset by a $0.2 million excise tax refund. The asset impairments, primarily in Underground Station stores, reflected deterioration in the urban footwear market. In addition, in May of 2007 the Company announced a plan to close or convert up to 57 underperforming urban stores, including 49 Underground Station Group stores and eight Hat World stores. See Forward-Looking Statements .

The Company recorded a pretax charge to earnings of $0.5 million ($0.3 million net of tax) and $0.6 million ($0.4 million net of tax) in the second quarter and first six months, respectively, of Fiscal 2007, primarily for retail store asset impairments.

Comparable Sales

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

Results of Operations Second Quarter Fiscal 2008 Compared to Second Quarter Fiscal 2007

The Company s net sales in the second quarter ended August 4, 2007 increased 7.8% to $328.0 million from $304.3 million in the second quarter ended July 29, 2006. Gross margin increased 6.7% to $163.6 million in the second quarter this year from $153.4 million in the same period last year and decreased as a percentage of net sales from 50.4% to 49.9%. Selling and administrative expenses in the second quarter this year increased 18.1% from the second quarter last year and increased as a percentage of net sales from 46.2% to 50.6%. The Company records buying and merchandising and occupancy costs in selling and administrative expense. Because the Company

does not include these costs in cost of sales, the Company s gross margin may not be comparable to other retailers that include these costs in the calculation of gross margin. Explanations of the changes in results of operations are provided by business segment in discussions following these introductory paragraphs.
Losses before income taxes from continuing operations (pretax losses)) for the second quarter ended August 4, 2007 were $(5.6) million compared to pretax earnings of $10.1 million for the second quarter ended July 29, 2006. The pretax loss for the second quarter ended August 4, 2007 included restructuring and other charges of $0.2 million ($0.1 million net of tax) primarily for retail store asset impairments offset by an excise tax refund. The loss also included $5.4 million in expenses related to the Proposed Merger. Pretax earnings for the second quarter ended July 29, 2006 included restructuring and other charges of $0.5 million, primarily for retail store asset impairments.
The net loss for the second quarter ended August 4, 2007 was $(4.2) million ($0.19 diluted loss per share) compared to net earnings of $5.9 million ($0.24 diluted earnings per share) for the second quarter ended July 29, 2006. The net loss for the second quarter ended August 4, 2007 included a $1.2 million ($0.06 diluted loss per share) charge to earnings (net of tax) primarily for additional environmental remediation costs. The Company recorded an effective income tax rate of 47.5% in the second quarter this year compared to 41.3% in the same period last year. The variance in the effective tax rate for the second quarter this year compared to the second quarter last year is primarily attributable to non-deductible expenses incurred in connection with the Proposed Merger and to FIN 48 adjustments. See Note 6 to the Condensed Consolidated Financial Statements for additional information.
Journeys Group

	Three Months Ended		
	August 4, 2007	July 29, 2006	% Change
	(dollars in thousands)		
Net sales	**$ 148,091**	$ 136,669	8.4%
Earnings from operations	**$ 983**	$ 7,935	(87.6)%
Operating margin	**0.7%**	5.8%	

Net sales from Journeys Group increased 8.4% for the second quarter ended August 4, 2007 compared to the same period last year. The increase reflects primarily a 12% increase in average Journeys stores operated (i.e., the sum of the number of stores open on the first day of the fiscal quarter and the last day of each fiscal month during the quarter divided by four) offset by a 7% decrease in comparable store sales. The comparable store sales decrease reflects a decrease of 3% in footwear unit comparable sales and a 5% decline in the average price per pair of shoes, reflecting changes in product mix and increased markdowns. Unit sales increased 13% during the same period. The Journeys Group business was impacted by both later back-to-school shopping and a shift in sales tax holidays, especially in Texas and Florida, from the second quarter last year into the third quarter this year. Approximately 18% of Journeys Group stores are located in Texas and Florida. Journeys Group operated 909 stores at the end of the second quarter of Fiscal 2008, including 91 Journeys Kidz stores and 29 Shi by Journeys stores, compared to 806 stores at the end of the second quarter last year, including 64 Journeys Kidz stores and six Shi by Journeys stores.

Journeys Group earnings from operations for the second quarter ended August 4, 2007 decreased 87.6% to $1.0 million compared to $7.9 million for the second quarter ended July 29, 2006. The decrease was due to decreased gross margin as a percentage of net sales, reflecting increased markdowns and changes in product mix, and due to increased expenses as a percentage of net sales from negative leverage in store related expenses from negative comparable store sales and increased rent expense as a result of relocating from smaller sized, volume-constrained locations to bigger stores in order to offer a broader selection of products, new stores and lease renewals.

Underground Station Group

	Three Months Ended		
	August 4, 2007	July 29, 2006	% Change
	(dollars in thousands)		
Net sales	**$ 24,520**	$ 30,917	(20.7)%
Loss from operations	**$ (4,893)**	$ (1,747)	(180.1)%
Operating margin	**(20.0)%**	(5.7)%	

Net sales from the Underground Station Group (comprised of Underground Station and Jarman retail stores) decreased 20.7% to $24.5 million for the second quarter ended August 4, 2007, from $30.9 million for the same period last year. Sales for Underground Station stores decreased 17% for the second quarter ended August 4, 2007. Sales for Jarman retail stores decreased 38% for the second quarter this year, reflecting a 41% decrease in the average number of Jarman stores in operation, related to the Company s strategy of closing Jarman stores or converting them to Underground Station stores. Comparable store sales decreased 23% for the Underground Station Group, 25% for Underground Station stores and 12% for Jarman retail stores. The decrease in comparable store sales was primarily due to the weak urban market, ongoing softness in athletic shoes and the loss of the chain s most popular athletic brand from its product offering. The sales tax holiday shift in Texas and Florida also negatively affected Underground Station sales, since 21% of all Underground Station stores are located in those two states. The average price per pair of shoes for Underground Station Group decreased 15% in the second quarter of Fiscal 2008 and unit sales decreased 6% during the same period. The average price per pair of shoes at Underground Station stores decreased 16%, primarily reflecting changes in product mix and increased markdowns, and unit sales increased 1%. Underground Station Group operated 219 stores at the end of the second quarter of Fiscal 2008, including 193 Underground Station stores, compared to 231 stores at the end of the second quarter last year, including 189 Underground Station stores.

The Underground Station Group loss from operations for the second quarter ended August 4, 2007 was $(4.9) million compared to a loss from operations of $(1.7) million in the second quarter ended July 29, 2006. The decrease was due to lower net sales, decreased gross margin as a percentage of net sales, reflecting increased markdowns, and increased expenses as a percentage of net sales from negative leverage in store related expenses from negative comparable store sales.

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Hat World Group

	Three Months Ended		
	August 4, 2007	July 29, 2006	% Change
	(dollars in thousands)		
Net sales	**$ 90,460**	$ 78,506	15.2%
Earnings from operations	**$ 7,418**	$ 8,617	(13.9)%
Operating margin	**8.2%**	11.0%	

Net sales from Hat World Group increased 15.2% for the second quarter ended August 4, 2007 compared to the same period last year, reflecting primarily a 22% increase in average stores operated offset by a 2% decrease in comparable store sales. The Company believes the comparable store sales were impacted by a challenging urban market, partially offset by strength in fashion-oriented Major League Baseball products and branded action headwear. Hat World Group operated 829 stores at the end of the second quarter of Fiscal 2008, including 28 stores in Canada, 10 Lids Kids stores and 49 Hat Shack stores compared to 685 stores at the end of the second quarter last year, including 21 stores in Canada.

Hat World Group earnings from operations for the second quarter ended August 4, 2007 decreased 13.9% to $7.4 million compared to $8.6 million for the second quarter ended July 29, 2006. The decrease was due to decreased gross margin as a percentage of net sales, reflecting increased markdowns, and to increased expenses as a percentage of net sales resulting from negative leverage in store related expenses from negative comparable store sales.

Johnston & Murphy Group

	Three Months Ended		
	August 4, 2007	July 29, 2006	% Change
	(dollars in thousands)		
Net sales	**$ 45,657**	$ 41,916	8.9%
Earnings from operations	**$ 3,612**	$ 2,484	45.4%
Operating margin	**7.9%**	5.9%	

Johnston & Murphy Group net sales increased 8.9% to $45.7 million for the second quarter ended August 4, 2007 from $41.9 million for the second quarter ended July 29, 2006, reflecting primarily a 5% increase in comparable store sales combined with a 4% increase in average stores operated for Johnston & Murphy retail operations and an 18% increase in Johnston & Murphy wholesale sales. Unit sales for the Johnston & Murphy wholesale business increased 16% in the second quarter of Fiscal 2008 compared to the second quarter of Fiscal 2007 and the average price per pair of shoes increased 2% for the same period. Retail operations accounted for 74.2% of Johnston & Murphy Group sales in the second quarter this year, down from 76.2% in the second quarter last year. The average price per pair of shoes for Johnston & Murphy retail operations increased 3% (4% in the Johnston and Murphy shops) in the second quarter this year, primarily due to changes in product mix and increased prices in certain styles, while footwear unit sales were even with the second quarter last year. The store count for Johnston & Murphy retail operations at the end of the second quarter of Fiscal 2008 included 154 Johnston & Murphy shops and factory stores compared to 148 Johnston & Murphy shops and factory stores at the end of the second quarter of Fiscal 2007.

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Johnston & Murphy Group earnings from operations for the second quarter ended August 4, 2007 increased 45.4% to $3.6 million from $2.5 million for the same period last year, primarily due to increased net sales, increased gross margin as a percentage of net sales, reflecting fewer markdowns, increased prices and better sourcing in the retail business.

Licensed Brands

	Three Months Ended		
	August 4, 2007	July 29, 2006	% Change
	(dollars in thousands)		
Net sales	**$ 19,059**	$ 16,116	18.3%
Earnings from operations	**$ 2,281**	$ 1,335	70.9%
Operating margin	**12.0%**	8.3%	

Licensed Brands net sales increased 18.3% to $19.1 million for the second quarter ended August 4, 2007, from $16.1 million for the second quarter ended July 29, 2006. The sales increase reflects the increase in demand for Dockers Footwear, related to retail sell-through, due in part to increased shelf space in existing accounts. Unit sales for Dockers Footwear increased 16% for the second quarter of Fiscal 2008 compared to the second quarter of Fiscal 2007 and the average price per pair of shoes increased 3% compared to the same period last year.

Licensed Brands earnings from operations for the second quarter ended August 4, 2007 increased 70.9% from $1.3 million for the second quarter ended July 29, 2006 to $2.3 million, primarily due to increased net sales, increased gross margin as a percentage of net sales and decreased expenses as a percentage of net sales.

Corporate, Interest Expenses and Other Charges

Corporate and other expenses for the second quarter ended August 4, 2007 were $12.0 million compared to $6.3 million for the second quarter ended July 29, 2006. Corporate expenses in the second quarter this year included $5.4 million in expenses related to the Proposed Merger and included $0.2 in restructuring and other charges, primarily for retail store asset impairments offset by an excise tax refund. Last year s second quarter included $0.5 million in restructuring and other charges, primarily for retail store asset impairments.

Interest expense increased 34.9% from $2.3 million in the second quarter ended July 29, 2006 to $3.1 million for the second quarter ended August 4, 2007, primarily due to an increase in revolver borrowings from $23.0 million at the end of the second quarter last year to $102.0 million this year as a result of the Hat Shack acquisition late in Fiscal 2007 and stock repurchases of $32.1 million in Fiscal 2007. Interest income decreased 44.9% for the quarter compared to the second quarter of Fiscal 2007 due to the decrease in average short-term investments.

Results of Operations Six Months Fiscal 2008 Compared to Six Months Fiscal 2007

The Company s net sales in the six months ended August 4, 2007 increased 7.0% to $662.6 million from $619.3 million in the six months ended July 29, 2006. Gross margin increased 6.6% to $335.5 million in the first six months of this year from $314.8 million in the same period last year but decreased as a percentage of net sales from 50.8% to 50.6%. Selling and administrative expenses in the first six months of this year increased 15.1% from the first six months of last year and increased as a percentage of net sales from 45.6% to 49.1%. The Company records buying and merchandising and occupancy costs in selling and administrative expense. Because the Company does not include these costs in cost of sales, the Company s gross margin may not be comparable to other retailers that include these costs in the calculation of gross margin. Explanations of the changes in results of operations are provided by business segment in discussions following these introductory paragraphs.

Losses before income taxes from continuing operations (pretax losses) for the six months ended August 4, 2007 were $(1.8) million compared to pretax earnings of $27.6 million for the six months ended July 29, 2006. The pretax loss for the six months ended August 4, 2007 included restructuring and other charges of $6.8 million ($4.1 million net of tax) primarily for retail store asset impairments in underperforming urban stores in the Underground Station Group. In addition, the Company announced a plan in May of 2007 to close or convert up to 57 underperforming urban stores. The 57 targeted stores include 49 Underground Station stores and eight Hat World stores. The loss also included $5.5 million in expenses related to the Proposed Merger. Pretax earnings for the six months ended July 29, 2006 included restructuring and other charges of $0.6 million, primarily for retail store asset impairments.

The net loss for the six months ended August 4, 2007 was $(2.0) million ($0.09 diluted loss per share) compared to net earnings of $16.4 million ($0.64 diluted earnings per share) for the six months ended July 29, 2006. The net loss for the six months ended August 4, 2007 included a $1.2 million ($0.05 diluted loss per share) charge to earnings (net of tax) primarily for additional environmental remediation costs. The Company recorded an effective income tax rate of 59.6% in the first six months this year compared to 39.8% in the same period last year. The variance in the effective tax rate for the first six months this year compared to the first six months last year is primarily attributable to non-deductible expenses incurred in connection with the Proposed Merger and to FIN 48 adjustments. See Note 6 to the Condensed Consolidated Financial Statements for additional information.

Journeys Group

	Six Months Ended		
	August 4, 2007	July 29, 2006	% Change
	(dollars in thousands)		
Net sales	**$ 304,012**	$ 278,169	9.3%
Earnings from operations	**$ 11,800**	$ 21,086	(44.0)%
Operating margin	**3.9%**	7.6%	

Net sales from Journeys Group increased 9.3% for the first six months ended August 4, 2007 compared to the same period last year. The increase reflects primarily a 12% increase in average Journeys stores operated (i.e., the sum of the number of stores open on the first day of the fiscal quarter and the last day of each fiscal month during the six months divided by seven) offset by a

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2% decrease in comparable store sales. The comparable store sales decrease reflects a 6% decline in the average price per pair of shoes, reflecting changes in product mix and increased markdowns offset by a 2% increase in footwear unit comparable sales. Unit sales increased 15% during the same period.

Journeys Group earnings from operations for the six months ended August 4, 2007 decreased 44.0% to $11.8 million compared to $21.1 million for the six months ended July 29, 2006. The decrease was due to decreased gross margin as a percentage of net sales, reflecting increased markdowns and changes in product mix and to increased expenses as a percentage of net sales from negative leverage in store related expenses from negative comparable store sales and increased rent expense as a result of relocating from smaller sized, volume constrained locations to bigger stores in order to offer a broader selection of products, new stores and lease renewals, and increased employee expenses due to higher minimum wage costs.

Underground Station Group

	Six Months Ended		
	August 4, 2007	July 29, 2006	% Change
	(dollars in thousands)		
Net sales	**$ 54,330**	$ 70,873	(23.3)%
(Loss) earnings from operations	**$ (7,061)**	$ 658	NM
Operating margin	**(13.0)%**	0.9%	

Net sales from the Underground Station Group decreased 23.3% to $54.3 million for the six months ended August 4, 2007, from $70.9 million for the same period last year. Sales for Underground Station stores decreased 20% for the six months ended August 4, 2007. Sales for Jarman retail stores decreased 40% for the six months this year, reflecting a 39% decrease in the average number of Jarman stores in operation, related to the Company s strategy of closing Jarman stores or converting them to Underground Station stores. Comparable store sales decreased 22% for the Underground Station Group, 24% for Underground Station stores and 13% for Jarman retail stores. The decrease in comparable store sales was primarily due to the weak urban market, ongoing softness in athletic shoes and the loss of the chain s most popular athletic brand from its product offering. The average price per pair of shoes for Underground Station Group decreased 15% in the first six months of Fiscal 2008 and unit sales decreased 8% during the same period. The average price per pair of shoes at Underground Station stores decreased 16% primarily reflecting changes in product mix and increased markdowns, and unit sales decreased 2%.

Underground Station Group loss from operations for the first six months ended August 4, 2007 was $(7.1) million compared to earnings from operations of $0.7 million in the first six months ended July 29, 2006. The decrease was due to lower net sales and decreased gross margin as a percentage of net sales, reflecting increased markdowns, and increased expenses as a percentage of net sales from negative leverage in store related expenses from negative comparable store sales.

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Hat World Group

	Six Months Ended		
	August 4, 2007	July 29, 2006	% Change
	(dollars in thousands)		
Net sales	**$ 169,304**	$ 149,194	13.5%
Earnings from operations	**$ 10,070**	$ 14,624	(31.1)%
Operating margin	**5.9%**	9.8%	

Net sales from Hat World Group increased 13.5% for the six months ended August 4, 2007 compared to the same period last year, reflecting primarily a 23% increase in average stores operated offset by a 3% decrease in comparable store sales. The Company believes the comparable store sales were impacted by a challenging urban market, partially offset by strength in fashion-oriented Major League Baseball products and branded action headwear.

Hat World Group earnings from operations for the first six months ended August 4, 2007 decreased 31.1% to $10.1 million compared to $14.6 million for the first six months ended July 29, 2006. The decrease was due to decreased gross margin as a percentage of net sales, reflecting increased markdowns, and to increased expenses as a percentage of net sales resulting from negative leverage in store related expenses from negative comparable store sales.

Johnston & Murphy Group

	Six Months Ended		
	August 4, 2007	July 29, 2006	% Change
	(dollars in thousands)		
Net sales	**$ 91,951**	$ 85,947	7.0%
Earnings from operations	**$ 8,082**	$ 5,307	52.3%
Operating margin	**8.8%**	6.2%	

Johnston & Murphy Group net sales increased 7.0% to $92.0 million for the six months ended August 4, 2007 from $85.9 million for the six months ended July 29, 2006, reflecting primarily a 4% increase in comparable store sales combined with a 4% increase in average stores operated for Johnston & Murphy retail operations and a 10% increase in Johnston & Murphy wholesale sales. Unit sales for the Johnston & Murphy wholesale business increased 9% in the first six months of Fiscal 2008 and the average price per pair of shoes was flat for the same period. Retail operations accounted for 73.0% of Johnston & Murphy Group sales in the first six months this year, down from 73.6% in the first six months last year. The average price per pair of shoes for Johnston & Murphy retail operations increased 3% (5% in the Johnston and Murphy shops) in the first six months this year, primarily due to changes in product mix and increased prices in certain styles, while footwear unit sales were even with the first six months last year.

Johnston & Murphy Group earnings from operations for the six months ended August 4, 2007 increased 52.3% compared to the same period last year, primarily due to increased net sales, increased gross margin as a percentage of net sales, reflecting fewer markdowns, increased prices and better sourcing in the retail business, and decreased expenses as a percentage of net sales reflecting operating leverage from the comparable store and wholesale sales increases.

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Licensed Brands

	Six Months Ended August 4, 2007	July 29, 2006	% Change
	(dollars in thousands)		
Net sales	**$ 42,588**	$ 34,915	22.0%
Earnings from operations	**$ 5,360**	$ 3,064	74.9%
Operating margin	**12.6%**	8.8%	

Licensed Brands net sales increased 22.0% to $42.6 million for the six months ended August 4, 2007, from $34.9 million for the six months ended July 29, 2006. The sales increase reflects the increase in demand for Dockers Footwear, related to retail sell-through, due in part to increased shelf space in existing accounts. Unit sales for Dockers Footwear increased 19% for the first six months this year and the average price per pair of shoes increased 4% compared to the same period last year.

Licensed Brands earnings from operations for the six months ended August 4, 2007 increased 74.9% from $3.1 million for the six months ended July 29, 2006 to $5.4 million, primarily due to increased net sales, increased gross margin as a percentage of net sales and decreased expenses as a percentage of net sales.

Corporate, Interest Expenses and Other Charges

Corporate and other expenses for the six months ended August 4, 2007 were $24.7 million compared to $13.1 million for the six months ended July 29, 2006. Corporate expenses in the first six months this year included $6.8 million in restructuring and other charges, primarily for retail store asset impairments in underperforming urban stores primarily in the Underground Station Group. Corporate expenses in the first six months this year also included $5.5 million in expenses related to the Proposed Merger. Last year s first six months included $0.6 million in restructuring and other charges, primarily for retail store asset impairments.

Interest expense increased 20.7% from $4.5 million in the six months ended July 29, 2006 to $5.5 million for the six months ended August 4, 2007, primarily due to increase in revolver borrowings from $23.0 million at the end of the second quarter last year to $102.0 million this year as a result of the Hat Shack acquisition late in Fiscal 2007 and stock repurchases of $32.1 million in Fiscal 2007. Interest income decreased 83.1% for the six months ended August 4, 2007 due to the decrease in average short-term investments.

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Liquidity and Capital Resources

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

	August 4, 2007	February 3, 2007	July 29, 2006
	(dollars in millions)		
Cash and cash equivalents	**$ 22.1**	$ 16.7	$ 19.4
Working capital	**$ 270.4**	$ 200.3	$ 201.2
Long-term debt	**$ 188.2**	$ 109.3	$ 129.3

Working Capital

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

Cash used in operating activities was $21.3 million in the first six months of Fiscal 2008 compared to $26.9 million in the first six months of Fiscal 2007. The $5.6 million increase in cash flow from operating activities from last year reflects primarily an increase in cash flow from changes in other accrued liabilities, inventory and accounts payable of $14.9 million, $14.3 million and $3.5 million, respectively, offset by a decrease in cash flow from changes in other current assets of $20.7 million and a decrease in net earnings of $18.4 million. The $14.9 million increase in cash flow from other accrued liabilities was due to decreased bonus payments and lower accrued income taxes at year end. The $14.3 million increase in cash flow from inventory was due to slower growth in the Underground Station Group business offset by growth in our other retail businesses with a net increase of 102 stores in the first six months of Fiscal 2008 versus 97 stores in the first six months of Fiscal 2007. The $3.5 million increase in cash flow from accounts payable was due to changes in buying patterns and payment terms negotiated with individual vendors. The $20.7 million change in cash flow from other current assets was primarily due to increased prepaid taxes.

The $86.5 million increase in inventories at August 4, 2007 from February 3, 2007 levels reflects seasonal increases in retail inventory and inventory purchased to support the net increase of 102 stores in the first six months this year.

Accounts receivable at August 4, 2007 decreased $1.9 million compared to February 3, 2007 due primarily to reductions in receivables relating primarily to tenant allowances offset by increased wholesale accounts receivable due to increased wholesale sales.

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

	Six Months Ended	
	August 4, 2007	July 29, 2006
	(in thousands)	
Accounts payable	**$ 64,137**	$ 60,656
Accrued liabilities	**(14,239)**	(29,089)
	$ 49,898	$ 31,567

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The fluctuations in cash provided due to changes in accounts payable for the first six months this year from the first six months last year are due to changes in buying patterns and payment terms negotiated with individual vendors. The change in cash provided due to changes in accrued liabilities for the first six months this year from the first six months last year was due primarily to decreased bonus payments in the first six months of Fiscal 2008.

Revolving credit borrowings averaged $39.3 million during the first six months ended August 4, 2007 and $1.4 million during the first six months ended July 29, 2006, as cash generated from operations did not fund seasonal working capital requirements or its capital expenditures in the first six months ended August 4, 2007. The Company acquired Hat Shack late in the fourth quarter of Fiscal 2007 for $16.6 million and paid off $1.6 million of the $2.2 million debt assumed in the acquisition which contributed to revolver borrowings in the first six months of Fiscal 2008.

The Company s contractual obligations over the next five years have increased from February 3, 2007. Operating lease obligations increased to $1.1 billion from $1.0 billion due to new store openings. Purchase obligations increased to $286 million from $163 million due to seasonal increases in purchases of retail inventory and new store openings. Long-term debt increased to $188.2 million from $109.3 million due to increased revolver borrowings as a result of the Hat Shack acquisition late in the fourth quarter of Fiscal 2007 and $32.1 million of stock repurchases during Fiscal 2007.

Capital Expenditures

Total capital expenditures in Fiscal 2008 are currently expected to be approximately $90.2 million. These include expected retail capital expenditures of $82.1 million to open approximately 52 Journeys stores, 46 Journeys Kidz stores, 38 Shi by Journeys stores, 12 Johnston & Murphy shops and factory stores, two Underground Station stores and 102 Hat World stores (including 13 Lids Kids stores) and to complete 141 major store renovations, including two conversions of Jarman stores to Underground Station stores. The amount of capital expenditures in Fiscal 2008 for other purposes is expected to be approximately $8.1 million, including approximately $2.7 million for new systems to improve customer service and support the Company s growth.

Future Capital Needs

The Company expects that cash on hand and cash provided by operations will be sufficient to support seasonal working capital requirements, although the Company plans to borrow under its revolving credit facility from time to time to fund its capital expenditures through Fiscal 2008. The approximately $5.6 million of costs associated with discontinued operations that are expected to be incurred during the next twelve months are also expected to be funded from cash on hand and borrowings under the revolving credit facility.

In a series of authorizations from Fiscal 1999-2003, the Company s board of directors authorized the repurchase of up to 7.5 million shares. In June 2006, the board authorized an additional $20.0 million in stock repurchases. In August 2006, the board authorized an additional $30.0 million in stock repurchases. The Company repurchased 1,062,400 shares at a cost of $32.1 million during Fiscal 2007. The Company did not repurchase any shares during the six months ended August 4, 2007. The agreement and plan of merger entered into in connection with the Proposed Merger generally prohibits further repurchases of stock. In total, the Company had repurchased 8.2 million shares at a cost of $103.4 million from all authorizations from Fiscal 1999 to August 4, 2007.

There were $13.0 million of letters of credit outstanding and $102.0 million revolver borrowings outstanding under the Credit Facility at August 4, 2007. At the end of the second quarter this year,

the Borrowing Base was $232.6 million. Adjusted Excess Availability is calculated based on the lesser of the $200.0 million facility amount or the Borrowing Base. Therefore, gross availability under the Credit Facility was $200.0 million leaving net availability under the Credit Facility of $85.0 million. The Company is not required to comply with any financial covenants unless Adjusted Excess Availability (as defined in the Amended and Restated Credit Agreement) is less than 10% of the total commitments under the Credit Facility (currently $20.0 million). If and during such time as Adjusted Excess Availability is less than such amount, the Credit Facility requires the Company to meet a minimum fixed charge coverage ratio (EBITDA less capital expenditures less cash taxes divided by cash interest expense and scheduled payments of principal indebtedness) of 1.0 to 1.0. Because Adjusted Excess Availability exceeded $20.0 million, the Company was not required to comply with this financial covenant at August 4, 2007.

The Company s Credit Facility prohibits the payment of dividends and other restricted payments unless after such dividend or restricted payment availability under the Credit Facility exceeds $50.0 million or if availability is between $30.0 million and $50.0 million, the fixed charge coverage must be greater than 1.0 to 1.0. The aggregate of annual dividend requirements on the Company s Subordinated Serial Preferred Stock, $2.30 Series 1, $4.75 Series 3 and $4.75 Series 4, and on its $1.50 Subordinated Cumulative Preferred Stock is $202,000.

Environmental and Other Contingencies

The Company is subject to certain loss contingencies related to environmental proceedings and other legal matters, including those disclosed in Note 9 to the Company s Condensed Consolidated Financial Statements. The Company has made accruals for certain of these contingencies, including approximately $2.1 million reflected in the first six months of Fiscal 2008, $1.1 million reflected in Fiscal 2007 and $0.8 million reflected in Fiscal 2006. The Company monitors these matters on an ongoing basis and, on a quarterly basis, management reviews the Company s reserves and accruals in relation to each of them, adjusting provisions as management deems necessary in view of changes in available information. Changes in estimates of liability are reported in the periods when they occur. Consequently, management believes that its reserve in relation to each proceeding is a reasonable estimate of the probable loss connected to the proceeding, or in cases in which no reasonable estimate is possible, the minimum amount in the range of estimated losses, based upon its analysis of the facts and circumstances as of the close of the most recent fiscal quarter. However, because of uncertainties and risks inherent in litigation generally and in environmental proceedings in particular, there can be no assurance that future developments will not require additional reserves to be set aside, that some or all reserves may not be adequate or that the amounts of any such additional reserves or any such inadequacy will not have a material adverse effect upon the Company s financial condition or results of operations.

Financial Market Risk

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

Outstanding Debt of the Company The Company s outstanding long-term debt of $86.2 million 4 1/8% Convertible Subordinated Debentures due June 15, 2023 bears interest at a fixed rate. Accordingly, there would be no immediate impact on the Company s interest expense due to fluctuations in market interest rates.

Cash and Cash Equivalents The Company s cash and cash equivalent balances are invested in financial instruments with original maturities of three months or less. The Company does not have significant exposure to changing interest rates on invested cash at August 4, 2007. As a result, the

Company considers the interest rate market risk implicit in these investments at August 4, 2007 to be low.

Foreign Currency Exchange Rate Risk Most purchases by the Company from foreign sources are denominated in U.S. dollars. To the extent that import transactions are denominated in other currencies, it is the Company s practice to hedge its risks through the purchase of forward foreign exchange contracts. At August 4, 2007, the Company had $6.4 million of forward foreign exchange contracts for Euro. The Company s policy is not to speculate in derivative instruments for profit on the exchange rate price fluctuation and it does not hold any derivative instruments for trading purposes. Derivative instruments used as hedges must be effective at reducing the risk associated with the exposure being hedged and must be designated as a hedge at the inception of the contract. The unrealized gain on contracts outstanding at August 4, 2007 was $0.2 million based on current spot rates. As of August 4, 2007, a 10% adverse change in foreign currency exchange rates from market rates would decrease the fair value of the contracts by approximately $0.6 million.

Accounts Receivable The Company s accounts receivable balance at August 4, 2007 is concentrated in its two wholesale businesses, which sell primarily to department stores and independent retailers across the United States. Two customers accounted for 11% each of the Company s trade accounts receivable balance and no other customer accounted for more than 9% of the Company s trade receivables balance as of August 4, 2007. The Company monitors the credit quality of its customers and establishes an allowance for doubtful accounts based upon factors surrounding credit risk, historical trends and other information; however, credit risk is affected by conditions or occurrences within the economy and the retail industry, as well as company-specific information.

Summary Based on the Company s overall market interest rate and foreign currency rate exposure at August 4, 2007, the Company believes that the effect, if any, of reasonably possible near-term changes in interest rates on the Company s consolidated financial position, results of operations or cash flows for Fiscal 2008 would not be material.

New Accounting Principles

In March 2006, the EITF reached a consensus on EITF Issue No. 06-3, How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (that is, gross versus net presentation), (EITF No. 06-3) which allows companies to adopt a policy of presenting taxes in the income statement on either a gross or net basis. Taxes within the scope of EITF No. 06-3 would include taxes that are imposed on a revenue transaction between a seller and a customer, for example, sales taxes, use taxes, value-added taxes and some types of excise taxes. EITF No. 06-3 was adopted effective February 4, 2007. EITF No. 06-3 did not impact the method for recording and reporting these sales taxes in the Company s Consolidated Financial Statements for the three months and six months ended August 4, 2007 and will have no impact in future periods as the Company s policy is to exclude all such taxes from revenue.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 (fiscal year 2009 for the Company), and interim periods within those fiscal years. The Company is currently evaluating the impact that the adoption of SFAS No. 157 will have, if any, on its results of operations and financial position.

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In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115 (SFAS No. 159). SFAS No. 159 allows companies to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 (fiscal year 2009 for the Company). The Company is currently evaluating the impact that the adoption of SFAS No. 159 will have, if any, on its results of operations and financial position.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Item 4. Controls and Procedures

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

Based on their evaluation as of August 4, 2007, the principal executive officer and principal financial officer of the Company have concluded that the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) were effective to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within time periods specified in SEC rules and forms and (ii) accumulated and communicated to the Company s management, including the Company s principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

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

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PART II OTHER INFORMATION

Item 1. Legal Proceedings

The Company incorporates by reference the information regarding legal proceedings in Note 9 of the Company s Condensed Consolidated Financial Statements.

Item 1A. Risk Factors

The Company s results of operations and financial condition are subject to numerous risks and uncertainties described in its Fiscal 2007 Form 10-K, which risk factors are incorporated herein by reference, as well as to the additional risk factors described below. You should carefully consider these risk factors in conjunction with the other information contained in this report. Should any of these risks materialize, our business, financial condition and future prospects could be negatively impacted.

The failure to complete the pending sale of the Company could materially adversely impact the market price of our common stock.

Consummation of the merger with a subsidiary of The Finish Line, Inc. is subject to the terms and conditions of the merger agreement. If the merger is not completed for any reason, the price of the Company s common stock will likely decline to the extent that the market price of the common stock reflects market assumptions that the merger will be completed.

Item 4. Submission of Matters to a Vote of Security Holders

At the Company s annual meeting of shareholders held on June 27, 2007, shares representing a total of 22,937,099 votes were outstanding and entitled to vote. At the meeting, shareholders of the Company:

1) elected twelve directors nominated by the board of directors by the following votes:

	Votes For	Votes Withheld
James S. Beard	20,726,809	39,750
Leonard L. Berry	20,727,482	39,077
William F. Blaufuss, Jr.	20,727,943	38,616
James W. Bradford	20,654,256	112,303
Robert V. Dale	19,168,137	1,598,422
Robert J. Dennis	20,661,794	104,765
Matthew C. Diamond	20,727,557	39,002
Marty G. Dickens	20,654,649	111,910
Ben T. Harris	20,661,826	104,733
Kathleen Mason	20,590,419	176,140
Hal N. Pennington	20,605,600	105,943
William A. Williamson, Jr.	20,658,358	108,201

2) ratified the appointment of Ernst & Young LLP as independent registered public accounting firm for the fiscal year ending February 2, 2008 by a vote of 20,518,612 for and 245,920 against, with 2,026 abstentions and no broker non-votes.

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Item 6. Exhibits

Exhibits

(10)a. Amendment No. 1 to Amended and Restated EVA Incentive Compensation Plan.

(10)b. Amendment No. 3 to Deferred Income Plan.

(10)c. Amendment to the Amended and Restated Genesco Employee Stock Purchase Plan.

(31.1) Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

(31.2) Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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

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

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

Genesco Inc.

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

Date: September 13, 2007

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