



(Mark One)

Form 10-K
Annual Report Pursuant To
Section 13 or 15(d) of the
Securities Exchange Act of 1934
For the Fiscal Year Ended
January 28, 2006

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Transition Report Pursuant To
Section 13 or 15(d) of the
Securities Exchange Act of 1934

Securities and Exchange Commission
Washington, D.C. 20549
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

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

Title	Exchanges on which Registered
Common Stock, \$1.00 par value	New York and Chicago
Preferred Share Purchase Rights	New York and Chicago

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

Subordinated Serial Preferred Stock, Series 1
Employees' Subordinated Convertible Preferred Stock

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 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

Documents Incorporated by Reference

Portions of the proxy statement for the June 28, 2006 annual meeting of shareholders are incorporated into Part III by reference.

Common Shares Outstanding March 31, 2006 – 23,267,994 The aggregate market value of common stock held by nonaffiliates of the registrant as of July 30, 2005, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$848,000,000. The market value calculation was determined using a per share price of \$37.27, the price at which the common stock was last sold on the New York Stock Exchange on such date. For purposes of this calculation, shares held by nonaffiliates excludes only those shares beneficially owned by officers, directors, and shareholders owning 10% or more of the outstanding common stock (and, in each case, their immediate family members and affiliates).

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PART I**ITEM 1, BUSINESS****General**

Genesco is a leading retailer of branded footwear, licensed and branded headwear and wholesaler of branded footwear, with net sales for Fiscal 2006 of \$1.3 billion. During Fiscal 2006, the Company operated five reportable business segments (not including corporate): Journeys, comprised of the Journeys and Journeys Kidz retail footwear chains; Underground Station Group, comprised of the Underground Station and Jarman retail footwear chains; Hat World, comprised of the Hat World, Lids, Hat Zone, Cap Connection and Head Quarters retail headwear chains; Johnston & Murphy, comprised of Johnston & Murphy retail operations and wholesale distribution; and Licensed Brands, comprised of wholesale distribution of footwear manufactured under the Dockers® and Perry Ellis® brands, under licenses from Levi Strauss & Company and PEI, Inc. On April 1, 2004, the Company acquired Hat World Corporation, a leading retailer of licensed and branded headwear. On July 1, 2004, the Company acquired Cap Connection Ltd., a retailer of licensed and branded headwear in Canada.

At January 28, 2006, the Company operated 1,755 retail footwear and headwear stores throughout the United States and Puerto Rico and 18 headwear stores in Canada. It currently plans to open a total of 207 new retail stores in Fiscal 2007. At January 28, 2006, Journeys operated 761 stores, including 50 Journeys Kidz; Underground Station Group operated 229 stores, including 180 Underground Station stores; Hat World operated 641 stores, including 18 Canadian stores, and Johnston & Murphy operated 142 retail shops and factory stores.

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

	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005	Fiscal 2006
Retail Footwear and Headwear Stores and Leased Departments					
Beginning of year	836	908	991	1,046	1,618
Opened during year	153	97	80	120	193
Acquired during year	-0-	-0-	-0-	503	-0-
Closed during year	(81)	(14)	(25)	(51)	(38)
End of year	<u>908</u>	<u>991</u>	<u>1,046</u>	<u>1,618</u>	<u>1,773</u>

The Company also designs, sources, markets and distributes footwear under its own Johnston & Murphy brand and under the licensed Dockers and Perry Ellis brands to over 950 retail accounts in the United States, including a number of leading department, discount, and specialty stores.

Shorthand references to fiscal years (e.g., "Fiscal 2006") refer to the fiscal year ended on the Saturday nearest January 31st in the named year (e.g., January 28, 2006). For further information on the Company's business segments, see Note 14 to the Consolidated Financial Statements included in Item 8 and "Management's Discussion and Analysis of Financial Condition and Results of Operations." All information contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations" which is referred to in Item 1 of this report is

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incorporated by such reference in Item 1. This report contains forward-looking statements. Actual results may vary materially and adversely from the expectations reflected in these statements. For a discussion of some of the factors that may lead to different results, see Item 1A, "Risk Factors" and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Available Information

The Company files reports with the Securities and Exchange Commission ("SEC"), including annual reports on Form 10-K, quarterly reports on Form 10-Q and other reports from time to time. The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The Company is an electronic filer and the SEC maintains an Internet site at <http://www.sec.gov> that contains the reports, proxy and information statements, and other information filed electronically. Our website address is <http://www.genesco.com>. Please note that our website address is provided as an inactive textual reference only. We make available free of charge through our website annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. The information provided on our website is not part of this report, and is therefore not incorporated by reference unless such information is otherwise specifically referenced elsewhere in this report.

Segments

Journeys

The Journeys segment accounted for approximately 46% of the Company's net sales in Fiscal 2006. Operating income attributable to Journeys was \$73.3 million in Fiscal 2006, with an operating margin of 12.4%. The Company believes that its innovative store formats, mix of well-known brands, new product introductions, and experienced management team provide significant competitive advantages for Journeys.

At January 28, 2006, Journeys operated 761 stores, including 50 Journeys Kidz stores, averaging approximately 1,700 square feet, throughout the United States and Puerto Rico, selling footwear for young men and women and children.

Journeys added 66 net new stores in Fiscal 2006 and comparable store sales were up 7% from the prior fiscal year. Journeys stores target customers in the 13-22 year age group through the use of youth-oriented decor and popular music videos. Journeys stores carry predominately branded merchandise across a wide range of prices, including such leading brand names as Diesel, Converse, Puma, Etnies and adidas. From a base of 533 Journeys stores at the end of Fiscal 2002, the Company opened 81 net new Journeys stores in Fiscal 2003, 51 net new stores in Fiscal 2004, 30 net new stores in Fiscal 2005 and 66 net new stores in Fiscal 2006 and plans to open approximately 93 net new Journeys stores in Fiscal 2007.

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Underground Station Group

The Underground Station Group segment, including Underground Station and Jarman retail stores, accounted for approximately 13% of the Company's net sales in Fiscal 2006. Operating income attributable to Underground Station Group was \$10.9 million in Fiscal 2006, with an operating margin of 6.6%.

At January 28, 2006, Underground Station Group operated 229 stores, including 180 Underground Station stores, averaging approximately 1,600 square feet, throughout the United States, selling footwear primarily for men.

Underground Station stores are located primarily in urban areas. Jarman stores are located primarily in urban and suburban areas in the Southeast and Midwest. For Fiscal 2006, most of the footwear sold in Underground Station stores was branded merchandise, including such leading brand names as Timberland, Nike, Puma, Diesel and adidas, with the remainder made up of Genesco and private label brands. The product mix at each Underground Station/Jarman store is tailored to match local customer preferences and competitive dynamics. The Company opened 15 net new Underground Station stores in Fiscal 2006 and closed 15 Jarman stores, leaving the total number of Underground Station/Jarman stores at 229. The 15 net new Underground Station stores included two conversions of Jarman retail stores to Underground Station stores. The Company plans to open approximately twelve net new Underground Station stores in Fiscal 2007 and close approximately nine Jarman stores. The Company has previously announced its intentions eventually to close the remaining Jarman stores or to convert them into Underground Station stores. For additional information, including with respect to the planned closing or conversion of the Company's Jarman stores, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 3 to the Consolidated Financial Statements, included in Item 8.

Hat World

The Hat World segment, including Hat World, Lids, Hat Zone, Cap Connection and Head Quarters stores, accounted for approximately 23% of the Company's net sales in Fiscal 2006. Operating income attributable to Hat World was \$40.1 million in Fiscal 2006, with an operating margin of 13.5%.

At January 28, 2006, Hat World operated 641 stores, averaging approximately 700 square feet, throughout the United States, Puerto Rico and Canada. Hat World added 89 net new stores in Fiscal 2006 and plans to open approximately 84 net new stores in Fiscal 2007.

The stores, located in malls, airports, street level stores and factory outlet stores nationwide and in Canada, target customers in the mid-teen to mid-20's age group. In general, the stores offer an assortment of college, MLB, NBA, NFL and NHL teams, as well as other specialty fashion categories.

Johnston & Murphy

The Johnston & Murphy segment, including retail stores, catalog and internet sales and wholesale distribution, accounted for approximately 13% of the Company's net sales in Fiscal 2006. Operating income attributable to Johnston & Murphy was \$10.4 million in Fiscal 2006, with an operating margin of 6.1%. All of the Johnston & Murphy wholesale sales are of the Genesco-owned Johnston & Murphy brand and approximately 95% of the Johnston & Murphy retail sales are of Genesco-owned brands.

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Johnston & Murphy Retail Operations. At January 28, 2006, Johnston & Murphy operated 142 retail shops and factory stores, averaging approximately 1,600 square feet, throughout the United States selling footwear and accessories for men. Johnston & Murphy retail shops are located primarily in better malls nationwide and sell a broad range of men's dress and casual footwear and accessories. The Company also sells Johnston & Murphy products directly to consumers through a direct mail catalog and an e-commerce website. Johnston & Murphy stores target male business and professional consumers. Retail prices for Johnston & Murphy footwear generally range from \$100 to \$250. Casual and dress casual products accounted for 35% of total Johnston & Murphy retail sales in Fiscal 2006, with the balance consisting of dress shoes and accessories.

Johnston & Murphy Wholesale Operations. In addition to sales through Company-owned Johnston & Murphy retail shops and factory stores, Johnston & Murphy footwear is sold at wholesale, primarily to better department and independent specialty stores. Johnston & Murphy's wholesale customers offer the brand's footwear for dress, dress casual, and casual occasions, with the majority of styles offered in these channels selling from \$125-\$175.

Licensed Brands

The Licensed Brands segment accounted for approximately 5% of the Company's net sales in Fiscal 2006. Operating income attributable to Licensed Brands was \$4.2 million in Fiscal 2006, with an operating margin of 7.1%. Substantially all of the Licensed Brands sales are of footwear marketed under the Dockers brand, for which Genesco has the exclusive men's footwear license in the United States since 1991. See "Trademarks and Licenses." Dockers footwear is marketed through many of the same national retail chains that carry Dockers slacks and sportswear. Suggested retail prices for Dockers footwear generally range from \$50 to \$80.

Manufacturing and Sourcing

The Company relies primarily on independent third-party manufacturers for production of its footwear products sold at wholesale. The Company sources footwear products from foreign manufacturers located in China, Italy, Mexico, Brazil, Indonesia, Taiwan, India and Portugal. The Company's retail operations source primarily branded products from third parties, who source primarily overseas.

Competition

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

Trademarks and Licenses

The Company owns its Johnston & Murphy footwear brand through a wholly-owned subsidiary. The Dockers brand footwear line, introduced in Fiscal 1993, is sold under a license agreement granting the exclusive right to sell men's footwear under the trademark in the United States. The Dockers license agreement, as amended, expires on December 31, 2006, with an option to renew through December 31, 2008. Net sales of Dockers products were \$58 million in Fiscal 2006 and

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\$64 million in Fiscal 2005. The Company also holds a license to market men's footwear under the Perry Ellis brand and certain related brands. Sales of products under the licensed Perry Ellis brands were not material in Fiscal 2006 and are not expected to be material in Fiscal 2007. The Company licenses certain of its footwear brands, mostly in foreign markets. License royalty income was not material in Fiscal 2006.

Wholesale Backlog

Most of the Company's orders in the Company's wholesale divisions are for delivery within 150 days. Because most of the Company's business is at-once, the backlog at any one time is not necessarily indicative of future sales. As of March 25, 2006, the Company's wholesale operations had a backlog of orders, including unconfirmed customer purchase orders, amounting to approximately \$27.2 million, compared to approximately \$22.9 million on March 26, 2005. The backlog is somewhat seasonal, reaching a peak in spring. The Company maintains in-stock programs for selected product lines with anticipated high volume sales.

Employees

Genesco had approximately 11,100 employees at January 28, 2006, approximately 110 of whom were employed in corporate staff departments and the balance in operations. Retail footwear and headwear stores employ a substantial number of part-time employees and approximately 6,170 of the Company's employees were part-time.

Properties

At January 28, 2006, the Company operated 1,773 retail footwear and headwear stores throughout the United States, Puerto Rico and Canada. New shopping center store leases typically are for a term of approximately 10 years and new factory outlet leases typically are for a term of approximately five years. Both typically provide for rent based on a percentage of sales against a fixed minimum rent based on the square footage leased.

The Company operates four distribution centers (three of which are owned and one is leased) aggregating approximately 800,000 square feet. Three of the facilities are located in Tennessee and one in Indiana. The Company's executive offices and the offices of its footwear operations, which are leased, are in Nashville, Tennessee where Genesco occupies approximately 76% of a 295,000 square foot building. The offices of the Company's headwear operations, which are leased, are in a 43,000 square foot building in Indianapolis, Indiana and a 1,800 square foot building in Edmonton, Alberta, Canada.

The lease on the Company's Nashville office expires in April 2017, with an option to renew for an additional five years. The lease on the Indianapolis office expires in May 2015 and the lease on the Edmonton office expires in July 2007. The Company believes that all leases of properties that are material to its operations may be renewed on terms not materially less favorable to the Company than existing leases.

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Environmental Matters

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

ITEM 1A, RISK FACTORS

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

Poor economic conditions affect consumer spending and may significantly harm our business.

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

- general economic, industry and weather conditions;
- energy costs, which affect gasoline and home heating prices;
- the level of consumer debt;
- interest rates;
- tax rates and policies;
- war, terrorism and other hostilities; and
- consumer confidence in future economic conditions.

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

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Our business involves a degree of fashion risk.

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

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

Our business and results of operations are subject to uncertainties arising out of world events, which may impact not only consumer demand, but also our ability to obtain the products we sell, most of which are produced outside the United States. These uncertainties may include a global economy slowdown, changes in consumer spending or travel, the increase in gasoline and natural gas prices, the outbreak of illnesses such as Bird Flu, and the economic consequences of military action or additional terrorist activities. Any future events arising as a result of terrorist activity or other world events may have a material impact on our business, including the demand for and our ability to source products, and consequently on our results of operations and financial condition.

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

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

- increased operational efficiencies of competitors;
- competitive pricing strategies;
- expansion by existing competitors;
- entry by new competitors into markets in which we currently operate; and
- adoption by existing retail competitors of innovative store formats or sales methods.

Hat World demand is partly dependent on developments in team sports. Hat World's sales have historically been affected by developments in team sports, and could be adversely impacted by player strikes or other season interruptions, as well as by the performance and reputation of certain key teams.

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

We do not manufacture any of the merchandise we sell. This means that our product supply is subject to the ability and willingness of third-party suppliers to deliver merchandise we order

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on time and in the quantities and of the quality we need. In addition, a material portion of our retail footwear sales consist of products marketed under brands, belonging to unaffiliated vendors, which have fashion significance to our customers. Our core retail hat business is dependent upon products bearing sports and other logos, each generally controlled by a single licensee/vendor. If those vendors were to decide not to deal with us or to limit the availability of their products to us, we could be unable to offer our customers the products they wish to buy and could lose their business to competitors.

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

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

- disruptions in the shipping and importation of imported products because of factors such as:
 - raw material shortages, work stoppages, strikes and political unrest;
 - problems with oceanic shipping, including shipping container shortages;
 - increased customs inspections of import shipments or other factors causing delays in shipments;
 - economic crises, international disputes and wars; and
- increases in the cost of purchasing or shipping foreign merchandise resulting from:
 - denial by the United States of “most favored nation” trading status to or the imposition of quotas or other restrictions on import from a foreign country from which we purchase goods;
 - import duties, import quotas and other trade sanctions; and
 - increases in shipping rates.

A significant amount of the inventory we sell is imported from the People’s Republic of China, which has in the recent past been subject to efforts to deny most favored nation status or to impose restrictions on imports of certain products.

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

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

We depend on a variety of information technology systems for the efficient functioning of our business. We rely on certain software vendors to maintain and periodically upgrade many of these systems so that they can continue to support our business. The software programs supporting many of our systems were licensed to the Company by independent software developers. The inability of these developers or the Company to continue to maintain and upgrade these information systems and software programs could disrupt or reduce the efficiency of our operations. In addition, costs and potential problems and interruptions associated with the implementation of new or upgraded systems and technology or with maintenance or adequate support of existing systems could also disrupt or reduce the efficiency of our operations. We also rely heavily on our information technology staff. If we cannot meet our staffing needs in this area, we may not be able to fulfill our technology initiatives or to provide maintenance on existing systems.

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

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

Our freight cost is impacted by changes in fuel prices through surcharges. Fuel prices and surcharges affect freight cost both on inbound freight from vendors to our distribution centers and outbound freight from our distribution centers to our stores and wholesale customers. Increases in fuel prices and surcharges and other factors may increase freight costs and thereby increase our cost of goods sold.

We face a number of risks in opening new stores.

As part of our growth strategy, we intend to continue to open new stores, both in regional malls, where most of our operational experience lies, and in other venues with which we are less familiar, including lifestyle centers, major city street locations, and tourist destinations. We increased our net store base by 55 in fiscal 2004, 572 in fiscal 2005 and 155 in fiscal 2006, and currently plan to increase our net store base by approximately 190 to 1,963 stores in fiscal 2007. We cannot assure you that we will be able to achieve our expansion goals or that we will

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be able to continue our history of operating new stores profitably. Further, we cannot assure you that any new store will achieve similar operating results to those of our existing stores or that new stores opened in markets in which we operate will not have a material adverse effect on the revenues and profitability of our existing stores. The success of our planned expansion will be dependent upon numerous factors, many of which are beyond our control, including the following:

- our ability to identify suitable markets and individual store sites within those markets;
- the competition for suitable store sites;
- our ability to negotiate favorable lease terms with landlords;
- our ability to obtain governmental and other third-party consents, permits and licenses needed to construct and operate our stores;
- the availability of employees to staff new stores and our ability to hire, train, motivate and retain store personnel;
- the availability of adequate management and financial resources to manage an increased number of stores;
- our ability to adapt our distribution and other operational and management systems to an expanded network of stores; and
- our ability to attract customers and generate sales sufficient to operate new stores profitably.

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

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

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

- the timing of new store openings;
- the amount of net sales contributed by new and existing stores;
- the timing of certain holidays and sales events;
- changes in our merchandise mix;
- general economic, industry and weather conditions that affect consumer spending; and
- actions of competitors, including promotional activity.

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

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

- competition;
- timing of holidays including sales tax holidays;
- general regional and national economic conditions;
- inclement weather such as hurricanes Katrina, Rita and Wilma that affected the Southern U.S. in the fall of 2005;
- consumer trends, such as less disposable income due the impact of higher gasoline prices;
- changes in our merchandise mix;
- our ability to distribute merchandise efficiently to our stores;
- timing and type of sales events, promotional activities or other advertising;
- new merchandise introductions; and
- our ability to execute our business strategy effectively.

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

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

We are parties to certain lawsuits and regulatory proceedings, including those disclosed in Note 13 to the Consolidated Financial Statements. If these or similar matters are resolved against us, our results of operations or our financial condition could be adversely affected. Moreover, with retail operations in 50 states, Puerto Rico, the U.S. Virgin Islands and Canada, we are subject to federal, state, provincial, territorial and local regulations which impose costs and risks on our business. Changes in regulations could make compliance more difficult and costly and inadvertent violations could result in liability for damages or penalties.

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

Our performance depends largely on the efforts and abilities of members of our management team. Our executives have substantial experience and expertise in our business and have made significant contributions to our growth and success. The unexpected future loss of services of one or more key members of our management team could have an adverse effect on our business. In addition, future performance will depend upon our ability to attract, retain and motivate qualified employees, including store personnel and field management, to keep pace with our expansion schedule. If we are unable to do so, our ability to meet our growth goals or to sustain expected levels of profitability may be compromised. Finally, our stores are decentralized, are managed through a network of geographically dispersed management personnel and historically experience a high degree of turnover. If we are for any reason

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unable to maintain appropriate controls on store operations, including the ability to control losses resulting from inventory and cash shrinkage, our sales and operating margins may be adversely affected. We cannot assure you that we will be able to attract and retain the personnel we need in the future.

Any acquisitions we make involve a degree of risk.

We have in the past, and may in the future, engage in acquisitions to grow our revenues and meet our other strategic objectives. If any future acquisitions are not successfully integrated with our business, our ongoing operations could be adversely affected. Additionally, acquisitions may not achieve desired profitability objectives or result in any anticipated successful expansion of the acquired businesses or concepts. Although we review and analyze assets or companies we acquire, such reviews are subject to uncertainties and may not reveal all potential risks. Additionally, although we attempt to obtain protective contractual provisions, such as representations, warranties and indemnities, in connection with acquisitions, we cannot assure you that we can obtain such provisions in our acquisitions or that they will fully protect us from unforeseen costs of the acquisitions. We may also incur significant costs in connection with pursuing possible acquisitions even if the acquisition is not ultimately consummated.

ITEM 1B, UNRESOLVED STAFF COMMENTS

None.

ITEM 2, PROPERTIES

See Item 1, Properties.

ITEM 3, LEGAL PROCEEDINGS

Environmental Matters

New York State Environmental Matters

In August 1997, the New York State Department of Environmental Conservation (the “Department”) 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 estimates that the cost of conducting the RIFS and implementing the IRM will be in the range of \$6.6 million to \$6.8 million, net of insurance recoveries, \$3.4 million of which the Company has already paid. In the course of preparing the RIFS, the Company has 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 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.

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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.

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. The Company estimates that the costs of resolving environmental contingencies related to the Whitehall property range from \$0.8 million to \$5.1 million, and considers the cost of implementing the Plan to be the most likely cost within that range. While management believes that the Plan should be sufficient to satisfy applicable regulatory standards with respect to the site, 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.

In December 2005, the U.S. Environmental Protection Agency ("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. Additionally, the Company presently cannot estimate its liability, if any, with respect to the second site associated with the glue manufacturer's waste disposal.

Related to all outstanding environmental contingencies, the Company had accrued \$5.4 million as of January 28, 2006, \$5.5 million as of January 29, 2005 and \$2.7 million as of January 31, 2004. 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

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circumstances as of the time they were made. There is no assurance that relevant facts and circumstances will not change, necessitating future changes to the provisions. Such contingent liabilities are included in the liability arising from provision for discontinued operations on the accompanying Consolidated Balance Sheets.

Insurance Matter

In May 2003, the Company filed a declaratory judgment action in the U.S. District Court for the Middle District of Tennessee against former general liability insurance carriers that underwrote policies covering the Company during periods relevant to the New York State knitting mill matter described above and the matters described above under the caption "Whitehall Environmental Matters." The action sought a determination that the carriers' defense and indemnity obligations under the policies extend to the sites. During the third quarter of Fiscal 2005, the Company and the carriers reached definitive settlement agreements and the Company received cash payments from the carriers totaling approximately \$3.0 million in exchange for releases from liability with respect to the two sites. Net of the insurance proceeds, additional pretax provisions totaling approximately \$1.0 million for future remediation expenses associated with the New York State knitting mill matter described above and the Whitehall matter described above, are reflected in the loss from discontinued operations for Fiscal 2005.

Other Matters

Patent Action

In January 2003, the Company was named a defendant in an action filed in the United States District Court for the Eastern District of Pennsylvania, *Schoenhaus, et al. vs. Genesco Inc., et al.*, alleging that certain features of shoes in the Company's Johnston & Murphy line infringe the plaintiff's patent, misappropriate trade secrets and involve conversion of the plaintiff's proprietary information and unjust enrichment of the Company. On January 10, 2005, the court granted summary judgment to the Company on the patent claims, finding that the accused products do not infringe the plaintiff's patent. The plaintiffs appealed the summary judgment to the U.S. Court of Appeals for the Federal Circuit, pending which the trial court stayed the remainder of the case. On March 15, 2006, the Court of Appeals affirmed the summary judgment in the Company's favor.

California Employment Matters

On October 22, 2004, the Company was named a defendant in a putative class action filed in the Superior Court of the State of California, Los Angeles, *Schreiner vs. Genesco Inc., et al.*, alleging violations of California wages and hours laws, and seeking damages of \$40 million plus punitive damages. On May 4, 2005, the Company and the plaintiffs reached an agreement in principle to settle the action, subject to court approval and other conditions. In connection with the proposed settlement, to provide for the settlement payment to the plaintiff class and related expenses, the Company recognized a charge of \$2.6 million before taxes included in restructuring and other, net in the Consolidated Statements of Earnings for the first three months of Fiscal 2006. On May 25, 2005, a second putative class action, *Drake vs. Genesco Inc., et al.*, making allegations similar to those in the Schreiner complaint on behalf of employees of the Company's Johnston & Murphy division, was filed by a different plaintiff in the California Superior Court, Los Angeles. On November 22, 2005, the *Schreiner* court granted final approval of the settlement and the Company and the *Drake* plaintiff reached an agreement on November 17, 2005 to settle that action. The two matters were resolved more favorably to the Company than originally expected, as not all members of the plaintiff class in *Schreiner* submitted claims and because the court required that plaintiff's counsel bear the administrative expenses of the settlement. Consequently,

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the Company recognized income of \$0.9 million before tax, reflected in restructuring and other, net, in the Consolidated Statements of Earnings for the third quarter of Fiscal 2006.

On November 4, 2005, a former employee gave notice to the California Labor Work Force Development Agency (“LWDA”) of a claim against Genesco 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. LWDA is investigating the claim. The Company is assessing the matter and currently has no estimate of its potential liability, if any, in connection with it.

ITEM 4, SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders during the fourth quarter of Fiscal 2006.

EXECUTIVE OFFICERS OF THE REGISTRANT

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

Hal N. Pennington, 68, *Chairman, President and Chief Executive Officer*. Mr. Pennington has served in various roles during his 44 year tenure with Genesco. He was vice president-wholesale for Johnston & Murphy from 1990 until his appointment as president of Dockers Footwear in August 1995. He was named president of Johnston & Murphy in February 1997 and named senior vice president in June 1998. Mr. Pennington was named executive vice president, chief operating officer and a director of the Company as of November 4, 1999. Mr. Pennington was named president of the Company as of November 1, 2000. Mr. Pennington was named chief executive officer of the Company as of April 25, 2002. Mr. Pennington was named chairman as of October 28, 2004.

Robert J. Dennis, 52, *Executive Vice President and Chief Operating Officer*. Mr. Dennis joined the Company in April 2004 as chief executive officer of the Company’s newly acquired Hat World business. Mr. Dennis was named senior vice president of the Company in June 2004 and executive vice president and chief operating officer, with oversight responsibility for all the Company’s operating divisions, in October 2005. Mr. Dennis joined Hat World in 2001 from Asbury Automotive, where he was employed in senior management roles beginning in 1998. Mr. Dennis was a partner with McKinsey and Company, an international consulting firm, from 1984 to 1997.

James S. Gulmi, 60, *Senior Vice President — Finance and Chief Financial Officer*. Mr. Gulmi was employed by Genesco in 1971 as a financial analyst, appointed assistant treasurer in 1974 and named treasurer in 1979. He was elected a vice president in 1983 and assumed the responsibilities of chief financial officer in 1986. Mr. Gulmi was appointed senior vice president — finance in January 1996.

James C. Estepa, 54, *Senior Vice President*. Mr. Estepa joined the Company in 1985 and in February 1996 was named vice president operations of Genesco Retail, which included the Jarman Shoe Company, Journeys, Boot Factory and General Shoe Warehouse. Mr. Estepa was named senior vice president operations of Genesco Retail in June 1998. He was named president of Journeys in March 1999. Mr. Estepa was named senior vice president of the Company in April

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2000. He was named president and chief executive officer of the Genesco Retail Group in 2001, assuming additional responsibilities of overseeing Jarman and Underground Station.

Jonathan D. Caplan, 52, *Senior Vice President*. Mr. Caplan rejoined the Company in October 2002 as chief executive officer of the branded group and president of Johnston & Murphy and was named senior vice president in November 2003. Mr. Caplan first joined the Company in June 1982 and served as president of Genesco's Laredo-Code West division from December 1985 to May 1992. After that time, Mr. Caplan was president of Stride Rite's Children's Group and then its Ked's Footwear division, from 1992 to 1996. He was vice president, New Business Development and Strategy, for Service Merchandise Corporation from 1997 to 1998. Prior to joining Genesco in October 2002, Mr. Caplan served as president and chief executive officer of Hi-Tec Sports North America beginning in 1998.

John W. Clinard, 58, *Vice President — Administration and Human Resources*. Mr. Clinard has served in various human resources capacities during his 34 year tenure with Genesco. He was named vice president — human resources in June 1997. He was named vice president administration and human resources in November 2000.

Roger G. Sisson, 42, *Vice President, Secretary and General Counsel*. Mr. Sisson joined the Company in January 1994 as assistant general counsel and was elected secretary in February 1994. He was named general counsel in January 1996. Mr. Sisson was named vice president in November 2003. Before joining the Company, Mr. Sisson was associated with a Nashville law firm for approximately six years.

Mimi Eckel Vaughn, 39, *Vice President of Strategy and Business Development*. Ms. Vaughn joined the Company in September 2003 in her current position. Prior to joining the Company, Ms. Vaughn was executive vice president of business development and marketing, and acting chief financial officer from 2000 to 2001 for Link2Gov Corporation in Nashville. From 1993 to 1999, she was a consultant at McKinsey and Company in Atlanta. Prior to joining McKinsey, she held various corporate finance positions at Goldman, Sachs & Co., Wasserstein Perella & Co. Inc. and Drexel Burnham Lambert.

Matthew N. Johnson, 41, *Treasurer*. Mr. Johnson joined the Company in April 1993 as manager, corporate finance and was elected assistant treasurer in December 1993. He was elected treasurer in June 1996. Prior to joining the Company, Mr. Johnson was a vice president in the corporate and institutional banking division of The First National Bank of Chicago.

Paul D. Williams, 51, *Chief Accounting Officer*. Mr. Williams joined the Company in 1977, was named director of corporate accounting and financial reporting in 1993 and chief accounting officer in April 1995.

PART II**ITEM 5, MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

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

Fiscal Year ended January 29

	<u>High</u>	<u>Low</u>
2005		
1st Quarter	\$ 25.05	\$ 17.18
2nd Quarter	25.67	19.49
3rd Quarter	26.17	18.77
4th Quarter	31.39	25.09

Fiscal Year ended January 28

	<u>High</u>	<u>Low</u>
2006		
1st Quarter	\$ 31.50	\$ 25.16
2nd Quarter	41.10	25.80
3rd Quarter	40.27	33.41
4th Quarter	42.89	35.61

There were approximately 5,100 common shareholders of record on March 31, 2006.

The Company has not paid cash dividends in respect of its common stock since 1973. The Company's ability to pay cash dividends in respect of its common stock is subject to various restrictions. See Item 7 and Notes 6 and 8 to the Consolidated Financial Statements included in Item 8 for information regarding restrictions on dividends and redemptions of capital stock.

In total, the Company's board of directors has authorized the repurchase, from time to time, of up to 7.5 million shares of the Company's common stock. There were 398,300 shares remaining to be repurchased under these authorizations as of January 29, 2005. The board subsequently reduced the repurchase authorization to 100,000 shares in view of the Hat World acquisition. Any purchases would be funded from available cash and borrowings under the revolving credit facility. The Company has repurchased a total of 7.1 million shares at a cost of \$71.3 million under a series of authorizations since Fiscal 1999. The Company has not repurchased any shares since Fiscal 2004.

ITEM 6, SELECTED FINANCIAL DATA
Financial Summary

In Thousands except per common share data, financial statistics and other data	Fiscal Year End				
	2006	2005	2004	2003	2002
Results of Operations Data					
Net sales	\$ 1,283,876	\$ 1,112,681	\$ 837,379	\$ 828,307	\$ 746,157
Depreciation	34,622	31,266	24,607	21,788	18,348
Earnings before interest and taxes	112,827	88,064	51,649	66,279	62,198
Earnings before income taxes from continuing operations	102,470	77,102	44,360	58,409	54,634
Earnings from continuing operations	62,626	48,460	29,025	36,192	37,601
Earnings from (provision for) discontinued operations, net	60	(211)	(888)	(165)	(1,253)
Net earnings	\$ 62,686	\$ 48,249	\$ 28,137	\$ 36,027	\$ 36,348
Per Common Share Data					
Earnings from continuing operations					
Basic	\$ 2.73	\$ 2.19	\$ 1.32	\$ 1.65	\$ 1.70
Diluted	2.38	1.92	1.24	1.46	1.51
Discontinued operations					
Basic	.01	(.01)	(.04)	(.01)	(.05)
Diluted	.00	(.01)	(.04)	.00	(.05)
Net earnings					
Basic	2.74	2.18	1.28	1.64	1.65
Diluted	2.38	1.91	1.20	1.46	1.46
Balance Sheet Data					
Total assets	\$ 686,118	\$ 635,571	\$ 448,313	\$ 437,856	\$ 380,946
Long-term debt	106,250	161,250	86,250	103,245	103,245
Non-redeemable preferred stock	6,695	7,474	7,580	7,599	7,634
Common shareholders' equity	342,056	264,591	204,665	172,420	151,047
Capital expenditures	56,946	39,480	22,540	40,332	51,197
Financial Statistics					
Earnings before interest and taxes as a percent of net sales	8.8%	7.9%	6.2%	8.0%	8.3%
Book value per share	\$ 14.71	\$ 11.79	\$ 9.42	\$ 7.93	\$ 6.92
Working capital	\$ 184,986	\$ 176,245	\$ 197,569	\$ 183,652	\$ 166,811
Current ratio	2.2	2.4	3.4	3.3	3.5
Percent long-term debt to total capitalization	23.4%	37.2%	28.9%	36.4%	39.4%
Other Data (End of Year)					
Number of retail outlets*	1,773	1,618	1,046	991	908
Number of employees**	11,100	9,600	6,200	5,700	5,325

* Includes 486 Hat World stores in Fiscal 2005 acquired April 1, 2004 and 17 Cap Connection stores acquired July 1, 2004. See Note 2 to the Consolidated Financial Statements.

**Includes the addition of over 2,800 Hat World employees in Fiscal 2005 due to the acquisition.

Reflected in earnings from continuing operations for Fiscal 2006, 2005, 2004, 2003 and 2002 were restructuring and other charges of \$2.3 million, \$1.2 million, \$1.9 million, \$2.8 million and \$5.4 million, respectively, including \$0.3 million included in gross margin in Fiscal 2002. See Note 3 to the Consolidated Financial Statements for additional information regarding these charges.

Reflected in earnings from continuing operations for Fiscal 2005 was a favorable tax settlement of \$0.5 million and for Fiscal 2005, Fiscal 2004 and 2002 were tax benefits of \$0.2 million, \$1.1 million and \$3.5 million, respectively, resulting from the reversal of previously accrued income taxes.

Long-term debt includes current obligations. In April 2004, the Company entered into new credit facilities totaling \$175.0 million. Included in the facility was a \$100.0 million term loan used to fund a portion of the Hat World acquisition. In June 2003, the Company issued \$86.3 million of 4 1/8% convertible subordinated debentures due 2023. The Company used the proceeds plus additional cash to pay off \$103.2 million of its 5 1/2% convertible subordinated notes which resulted in a \$2.6 million loss on the early retirement of debt reflected in earnings from continuing operations for Fiscal 2004. See Note 6 to the Consolidated Financial Statements for additional information regarding the Company's debt.

The Company has not paid dividends on its Common Stock since 1973. See Notes 6 and 8 to the Consolidated Financial Statements for a description of limitations on the Company's ability to pay dividends.

ITEM 7, MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward Looking Statements

This discussion and the notes to the Consolidated Financial Statements include certain forward-looking statements, which include statements regarding our intent, belief or expectations and all statements other than those made solely with respect to historical fact. Actual results could differ materially from those reflected by the forward-looking statements in this discussion and a number of factors may adversely affect the forward looking statements and the Company's future results, liquidity, capital resources or prospects. For a discussion of some of these factors, see Item 1A, Risk Factors.

Overview

Description of Business

The Company is a leading retailer of branded footwear and of licensed and branded headwear, operating 1,755 retail footwear and headwear stores throughout the United States and Puerto Rico and 18 headwear stores in Canada as of January 28, 2006. The Company also designs, sources, markets and distributes footwear under its own Johnston & Murphy brand and under the licensed Dockers® and Perry Ellis® brands to over 950 retail accounts in the United States, including a number of leading department, discount, and specialty stores. On April 1, 2004, the Company acquired Hat World Corporation ("Hat World"), a leading retailer of licensed and branded headwear. On July 1, 2004, the Company acquired the assets and business of Edmonton, Alberta—based Cap Connection Ltd., a retailer of licensed and branded headwear in Canada, operating 18 stores at January 28, 2006. See "Significant Developments."

The Company operates five reportable business segments (not including corporate): Journeys, comprised of the Journeys and Journeys Kidz retail footwear chains; Underground Station Group, comprised of the Underground Station and Jarman retail footwear chains; Hat World, comprised of the Hat World, Lids, Hat Zone, Cap Connection and Head Quarters retail headwear operations; Johnston & Murphy, comprised of Johnston & Murphy retail operations and wholesale distribution; and Licensed Brands, comprised of Dockers® Footwear and Perry Ellis® Footwear. The Company introduced Perry Ellis Footwear with a limited offering for the Holiday 2005 season.

The Journeys retail footwear stores sell footwear and accessories primarily for 13 to 22 year old men and women. The stores average approximately 1,750 square feet. The Journeys Kidz retail footwear stores sell footwear primarily for younger children, ages four to eleven. These stores average approximately 1,400 square feet.

The Underground Station Group retail footwear stores sell footwear and accessories for men and women in the 20 to 35 age group. The Underground Station Group stores average approximately 1,600 square feet. 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 in Fiscal 2005 as quickly as it is financially feasible, subject to landlord approval. During Fiscal 2006, thirteen Jarman stores were closed and two Jarman stores were converted to

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Underground Station stores. During Fiscal 2005, 20 Jarman stores were closed and twelve Jarman stores were converted to Underground Station stores.

Hat World retail stores sell licensed and branded headwear to men and women primarily in the mid-teen to mid-20's age group. These stores average approximately 700 square feet and are located in malls, airports, street level stores and factory outlet stores nationwide and in Canada.

Johnston & Murphy retail stores sell a broad range of men's dress and casual footwear and accessories to business and professional consumers. These stores average approximately 1,300 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 & Murphy footwear in factory stores located in factory outlet malls. These stores average approximately 2,400 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 October 22, 2004. The Dockers license agreement, as amended, expires on December 31, 2006 with a Company option to renew through December 31, 2008, 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.

The Company entered into an exclusive license with Perry Ellis International to market men's footwear in the United States under the Perry Ellis® and Perry Ellis Portfolio® brands in 2005. The Perry Ellis license agreement expires December 31, 2008 with a Company option to renew through December 31, 2011. The Company introduced Perry Ellis Footwear with a limited offering for the Holiday 2005 season. The Company expects to sell footwear under the Perry Ellis license primarily to department and specialty stores across the country. Sales of products marketed under this license were not material in Fiscal 2006 and the Company does not expect them to be material in Fiscal 2007.

Strategy

The Company's strategy is to seek long-term 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 in Item 1A, "Risk Factors," above. 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, Underground Station and Hat World) can change rapidly, the Company believes that its ability to detect and respond 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. 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. Also important to the

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Company's long-term prospects are the availability and cost of appropriate locations for the Company's retail concepts. The Company is opening stores in airports and on streets in major cities, tourist venues and college campuses, 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 15.4% during Fiscal 2006 compared to the prior year. The increase was driven primarily by a 7% increase in comparable store sales for all footwear concepts and the addition of new stores and the inclusion of Hat World for a full twelve months. Comparable store sales for Hat World increased 4% for Fiscal 2006. Gross margin increased as a percentage of net sales during Fiscal 2006 primarily due to improved gross margins in the Journeys, Underground Station, Hat World and Johnston & Murphy businesses. Selling and administrative expenses increased as a percentage of net sales during Fiscal 2006 due to increased expenses in the Journeys, Hat World and Licensed Brands businesses. Operating income increased as a percentage of net sales during Fiscal 2006 due to improved operating income in the Journeys, Underground Station and Johnston & Murphy businesses.

Significant Developments

Cap Connection Acquisition

On July 1, 2004, the Company acquired the assets and business of Edmonton, Alberta-based Cap Connection Ltd. The purchase price for the Cap Connection business was approximately \$1.7 million. At January 28, 2006, the Company operated 18 Cap Connection and Head Quarters stores in Alberta, British Columbia and Ontario, Canada.

Hat World Acquisition

On April 1, 2004, the Company completed the acquisition of Hat World for a total purchase price of approximately \$179 million, including adjustments for \$12.6 million of net cash acquired, a \$1.2 million subsequent working capital adjustment and direct acquisition expenses of \$2.8 million. Hat World is a leading specialty retailer of licensed and branded headwear operating under the Hat World, Lids and Hat Zone names. The Company believes the acquisition has enhanced its strategic development and prospects for growth. The Company funded the acquisition and associated expenses with a \$100.0 million, five-year term loan and the balance from cash on hand.

\$175.0 million Credit Facility

On April 1, 2004, the Company entered into new credit facilities totaling \$175.0 million with 10 banks, led by Bank of America, N.A., as Administrative Agent, to fund a portion of the purchase price for the Hat World acquisition and to replace its existing revolving credit facility. The \$175.0 million facility consists of a \$100.0 million, five-year term loan and a \$75.0 million five-year revolving credit facility. The agreement governing the facilities expires April 1, 2009. See Note 6 to the Consolidated Financial Statements.

4 1/8% Convertible Subordinated Debentures due 2023

On June 24, 2003 and June 26, 2003, the Company issued a total of \$86.3 million of 4 1/8% Convertible Subordinated Debentures due June 15, 2023. During the second quarter ended August 2, 2003, the Company used the net proceeds of \$83 million and approximately \$23 million in additional cash to repay all of the Company's 5 1/2% convertible subordinated notes due 2005, including accrued interest payable and expenses incurred in connection therewith resulting in a loss

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on early retirement of debt of \$2.6 million (\$1.6 million redemption premium and \$1.0 million write-off of unamortized deferred note expense) reflected in the Company's Fiscal 2004 second quarter results. See Note 6 to the Consolidated Financial Statements for additional information.

Restructuring and Other Charges

The Company recorded a pretax charge to earnings of \$2.3 million (\$1.4 million net of tax) in Fiscal 2006. The charge included \$1.7 million for the settlement of a California employment class action and \$0.6 million for retail store asset impairments and lease terminations of thirteen Jarman stores. These lease terminations are the continuation of a plan previously announced by the Company in Fiscal 2004.

The Company recorded a pretax charge to earnings of \$1.2 million (\$0.8 million net of tax) in Fiscal 2005. The charge included \$1.8 million for lease terminations of 20 Jarman stores and retail store asset impairments offset by the recognition of a \$0.6 million gain on the curtailment of the Company's defined benefit pension plan.

The Company recorded a pretax charge to earnings of \$1.9 million (\$1.2 million net of tax) in Fiscal 2004. The charge included \$3.8 million in asset impairments related to underperforming retail stores identified as suitable for closing if acceptable lease terminations could be negotiated, most of which were Jarman stores. The charge is net of recognition of \$1.9 million of excess restructuring provisions primarily relating to facility shutdown costs originally accrued in Fiscal 2002. In accordance with SFAS No. 146, the Company revised its estimated liability and reduced the lease obligation during the period that the early lease termination was contractually obtained.

Minimum Pension Liability Adjustment

The return on pension plan assets was a gain of \$8.0 million for Fiscal 2006 compared to \$8.4 million in Fiscal 2005. The interest rate used to measure benefit obligations decreased from 5.75% to 5.50% in Fiscal 2006. Plan assets were less than the accumulated benefit obligation, resulting in a pension liability of \$23.2 million on the balance sheet compared to \$28.3 million last year. There was a decrease in the minimum pension liability adjustment of \$1.1 million (net of tax) in other comprehensive income in shareholders' equity. Depending upon future interest rates and returns on plan assets, and other known and unknown factors, there can be no assurance that additional adjustments in future periods will not be required.

Share Repurchase Program

In total, the Company's board of directors has authorized the repurchase, from time to time, of up to 7.5 million shares of the Company's common stock. There were 398,300 shares remaining to be repurchased under these authorizations as of January 29, 2005. The board subsequently reduced the repurchase authorization to 100,000 shares in view of the Hat World acquisition. The Company has repurchased a total of 7.1 million shares at a cost of \$71.3 million pursuant to all authorizations since Fiscal 1999. The Company has not repurchased any shares since Fiscal 2004.

Discontinued Operations

For the year ended January 28, 2006, the Company recorded a credit to earnings of \$0.1 million (\$0.1 million net of tax) reflected in discontinued operations, including a \$0.9 million gain for excess provisions to prior discontinued operations offset by \$0.8 million primarily for anticipated costs of environmental remedial alternatives related to former facilities operated by the Company (see Note 13).

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For the year ended January 29, 2005, the Company recorded an additional charge to earnings of \$0.3 million (\$0.2 million net of tax) reflected in discontinued operations, including \$1.0 million for anticipated costs of environmental remedial alternatives related to two manufacturing facilities formerly operated by the Company, offset by a \$0.7 million gain for excess provisions to prior discontinued operations (see Note 13).

In the fourth quarter ended January 31, 2004, the Company recorded an additional charge to earnings of \$1.4 million (\$0.9 million net of tax) reflected in discontinued operations, including \$0.6 million for the Company's former Volunteer Leather tannery in Whitehall, Michigan, and \$0.8 million primarily for additional costs of a remedial investigation and feasibility study at its former knitting mill in New York (see Note 13).

Critical Accounting Policies

Inventory Valuation

As discussed in Note 1 to the Consolidated Financial Statements, the Company values its inventories at the lower of cost or market.

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

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

Inherent in the retail inventory method are subjective judgments and estimates including merchandise mark-on, markups, markdowns, and shrinkage. These judgments and estimates, coupled with the fact that the retail inventory method is an averaging process, could produce a range of cost figures. To reduce the risk of inaccuracy and to ensure consistent presentation, the Company employs the retail inventory method in multiple subclasses of inventory with similar gross 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. A change of 10 percent from the recorded amounts for all such provisions would have changed inventory by \$0.6 million at January 28, 2006.

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.

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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-Term Assets

As discussed in Note 1 to the Consolidated Financial Statements, the Company periodically assesses the realizability of its long-lived assets and evaluates such assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Asset impairment is determined to exist if estimated future cash flows, undiscounted and without interest charges, are less than the carrying amount. Inherent in the analysis of impairment are subjective judgments about future cash flows. Failure to make appropriate conclusions regarding these judgments may result in an overstatement of the value of long-lived assets.

Environmental and Other Contingencies

The Company is subject to certain loss contingencies related to environmental proceedings and other legal matters, including those disclosed in Note 13 to the Company's Consolidated Financial Statements. The Company has made provisions for certain of these contingencies, including approximately \$0.8 million reflected in Fiscal 2006, \$0.9 million reflected in Fiscal 2005 and \$1.8 million reflected in Fiscal 2004. 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. 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.

Pension Plan Accounting

The Company accounts for the defined benefit pension plans using SFAS No. 87, "Employer's Accounting for Pensions." Under SFAS No. 87, pension expense is recognized on an accrual

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basis over employees' approximate service periods. The calculation of pension expense and the corresponding liability requires the use of a number of critical assumptions, including the expected long-term rate of return on plan assets and the assumed discount rate, as well as the recognition of actuarial gains and losses. Changes in these assumptions can result in different expense and liability amounts, and future actual experience can differ from these assumptions.

Long Term Rate of Return Assumption – Pension expense increases as the expected rate of return on pension plan assets decreases. The Company estimates that the pension plan assets will generate a long-term rate of return of 8.25%. To develop this assumption, the Company considered historical asset returns, the current asset allocation and future expectations of asset returns. Considering this information and the potential for lower future returns, the Company selected an 8.25% long-term rate of return on assets assumption. The expected long-term rate of return on plan assets is based on a long-term investment policy of 50% U.S. equities, 13% International equities, 35% U.S. fixed income securities and 2% cash equivalents. For Fiscal 2006, if the expected rate of return had been decreased by 1%, net pension expense would have increased by \$0.9 million, and if the expected rate of return had been increased by 1%, net pension expense would have decreased by \$0.9 million.

Discount Rate – Pension liability and future pension expense increase as the discount rate is reduced. The Company discounted future pension obligations using a rate of 5.50%, 5.75%, and 6.125% for Fiscal 2006, 2005 and 2004, respectively. The discount rate is determined based on the current yields on high quality long-term bonds. For Fiscal 2006, if the discount rate had been increased by 0.5%, net pension expense would have decreased by \$0.6 million, and if the discount rate had been decreased by 0.5%, net pension expense would have increased by \$0.6 million. In addition, if the discount rate had been increased by 0.5%, the projected benefit obligation would have decreased by \$6.1 million and the accumulated benefit obligation would have decreased by \$6.1 million. If the discount rate had been decreased by 0.5%, the projected benefit obligation would have been increased by \$6.8 million and the accumulated benefit obligation would have increased by \$6.8 million.

Amortization of Gains and Losses – The significant declines experienced in the financial markets have unfavorably impacted pension asset performance. The Company utilizes a calculated value of assets, which is an averaging method that recognizes changes in the fair values of assets over a period of five years. At the end of Fiscal 2006, the Company had unrecognized actuarial losses of \$43 million. Accounting principles generally accepted in the United States require that the Company recognize a portion of these losses when they exceed a calculated threshold. These losses might be recognized as a component of pension expense in future years and would be amortized over the average future service of employees, which is currently seven years. Future changes in plan asset returns, assumed discount rates and various other factors related to the pension plan will impact future pension expense and liabilities, including increasing or decreasing unrecognized actuarial gains and losses.

The Company recognized expense for its defined benefit pension plans of \$3.7 million, \$4.9 million and \$4.3 million in Fiscal 2006, 2005 and 2004, respectively. The Company's board of directors approved freezing the Company's defined pension benefit plan effective January 1, 2005. The Company's pension expense is expected to decrease in Fiscal 2007 by approximately \$0.1 million due to the net effect of a reduction in the discount rate from 5.75% to 5.50% and a higher than expected return on assets.

Results of Operations — Fiscal 2006 Compared to Fiscal 2005

The Company's net sales for Fiscal 2006 increased 15.4% to \$1.3 billion from \$1.1 billion in Fiscal 2005. Gross margin increased 18.4% to \$652.4 million in Fiscal 2006 from \$551.1 million in Fiscal 2005 and increased as a percentage of net sales from 49.5% to 50.8%. Selling and administrative expenses in Fiscal 2006 increased 16.4% from Fiscal 2005 and increased as a percentage of net sales from 41.5% to 41.9%. The Company records buying and merchandising and occupancy costs in selling and administrative expense. Because the Company does not include these costs in cost of sales, the Company's gross margin may not be comparable to other retailers that include these costs in the calculation of gross margin. Explanations of the changes in results of operations are provided by business segment in discussions following these introductory paragraphs.

Earnings before income taxes from continuing operations ("pretax earnings") for Fiscal 2006 were \$102.5 million compared to \$77.1 million for Fiscal 2005. Pretax earnings for Fiscal 2006 included restructuring and other charges of \$2.3 million, including \$1.7 million for settlement of a previously announced class action lawsuit (see Note 13), retail store asset impairments and lease terminations of 13 Jarman stores. These lease terminations are the continuation of a plan previously announced by the Company in Fiscal 2004. Pretax earnings for Fiscal 2005 included restructuring and other charges of \$1.2 million, primarily for lease terminations of 20 Jarman stores and retail asset impairments offset by the gain on the curtailment of the Company's defined benefit pension plan.

Net earnings for Fiscal 2006 were \$62.7 million (\$2.38 diluted earnings per share) compared to \$48.2 million (\$1.91 diluted earnings per share) for Fiscal 2005. Net earnings for Fiscal 2006 included \$0.1 million (\$0.00 diluted earnings per share) credit to earnings (net of tax), including a \$0.9 million gain for excess provisions to prior discontinued operations offset by \$0.8 million primarily for anticipated costs of environmental remedial alternatives related to former facilities operated by the Company. Net earnings for Fiscal 2005 included \$0.2 million (\$0.01 diluted earnings per share) charge to earnings (net of tax) primarily for anticipated costs of environmental remedial alternatives related to two manufacturing facilities operated by the Company, offset by \$3.3 million from settlements with certain insurance carriers regarding the sites and by excess provisions from prior discontinued operations. The Company recorded an effective federal income tax rate of 38.9% for Fiscal 2006 compared to 37.1% for Fiscal 2005. The year-to-year change reflects a favorable tax settlement of \$0.5 million and a tax benefit of \$0.2 million resulting from the reversal of previously accrued income taxes in Fiscal 2005. Because these amounts were reflected as current year income tax benefits for Fiscal 2005, it reduced the Company's effective federal income tax rate for Fiscal 2005.

Journeys

	Fiscal Year Ended		% Change
	2006	2005	
Net sales	\$ 593,516	\$ 521,942	13.7%
Operating income	\$ 73,346	\$ 60,065	22.1%
Operating margin	12.4%	11.5%	

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Net sales from Journeys increased 13.7% to \$593.5 million for Fiscal 2006 from \$521.9 million for Fiscal 2005. The increase reflects primarily a 7% increase in comparable store sales and a 5% increase in average Journeys stores operated (i.e., the sum of the number of stores open on the first day of the fiscal year and the last day of each fiscal month during the year divided by thirteen). The comparable store sales increase reflects a 10% increase in footwear unit comparable sales, offset by a 2% decrease in average price per pair of shoes. The average price decrease primarily reflects changes in product mix, while unit sales increased 16% during the same period driven by fashion athletic, euro casuals, board sport shoes and women's fashion footwear. The store count for Journeys was 761 stores at the end of Fiscal 2006, including 50 Journeys Kidz stores, compared to 695 Journeys stores at the end of Fiscal 2005, including 41 Journeys Kidz stores.

Journeys operating income for Fiscal 2006 increased 22.1% to \$73.3 million, compared to \$60.1 million for Fiscal 2005, primarily reflecting the increase in sales and increased gross margin as a percentage of net sales, reflecting changes in product mix and decreased markdowns as a percentage of net sales.

Underground Station Group

	Fiscal Year Ended		% Change
	2006	2005	
	(dollars in thousands)		
Net sales	\$ 164,054	\$ 148,039	10.8%
Operating income	\$ 10,890	\$ 6,963	56.4%
Operating margin	6.6%	4.7%	

Net sales from the Underground Station Group (comprised of Underground Station and Jarman retail stores) increased 10.8% to \$164.1 million for Fiscal 2006 from \$148.0 million for Fiscal 2005. Sales for Underground Station stores increased 25% for Fiscal 2006. Sales for Jarman retail stores decreased 23% for Fiscal 2006, reflecting a 23% decrease in Jarman stores operated related to the Company's strategy of closing Jarman stores or converting them to Underground Station stores. Comparable store sales were up 7% for the Underground Station Group, with comparable store sales for Underground Station stores up 10%. The comparable sales performance in the Underground Station stores was primarily driven by continued increases in average selling prices and a 3% increase in footwear unit comparable sales. The average price per pair of shoes for Underground Station Group increased 5% for Fiscal 2006 and unit sales increased 3% during the same period. The average price per pair of shoes at Underground Station stores increased 6% during the year, primarily reflecting changes in product mix and lower markdowns as a percentage of net sales. Underground Station Group operated 229 stores at the end of Fiscal 2006, including 180 Underground Station stores. During Fiscal 2006, two Jarman stores were converted to Underground Station stores. The Company had operated 229 stores at the end of Fiscal 2005, including 165 Underground Station stores.

Underground Station Group operating income for Fiscal 2006 increased 56.4% to \$10.9 million compared to \$7.0 million for the same period last year. The increase was due to increased sales, increased gross margin as a percentage of net sales, reflecting changes in product mix and decreased markdowns, and to decreased expenses as a percentage of net sales.

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	Fiscal Year Ended*		% Change
	2006	2005	
	(dollars in thousands)		
Net sales	\$ 297,271	\$ 216,270	NM
Operating income	\$ 40,133	\$ 30,522	NM
Operating margin	13.5%	14.1%	

* The Company acquired Hat World on April 1, 2004. Results for Fiscal 2005 are for the period April 1, 2004 – January 29, 2005, and are therefore not comparable to the twelve month period ended January 28, 2006.

Hat World comparable store sales increased 4% for Fiscal 2006. Hat World's comparable store sales increase was primarily driven by an increased number of units sold and higher selling prices. Hat World operated 641 stores at the end of Fiscal 2006, including 18 stores in Canada. Hat World operated 552 stores at the end of Fiscal 2005, including 19 stores in Canada.

Johnston & Murphy

	Fiscal Year Ended		% Change
	2006	2005	
	(dollars in thousands)		
Net sales	\$ 170,015	\$ 162,599	4.6%
Operating income	\$ 10,396	\$ 9,230	12.6%
Operating margin	6.1%	5.7%	

Johnston & Murphy net sales increased 4.6% to \$170.0 million for Fiscal 2006 from \$162.6 million for Fiscal 2005, reflecting primarily a 7% increase in comparable store sales for Johnston & Murphy retail operations and a 5% increase in Johnston & Murphy wholesale sales. Unit sales for the Johnston & Murphy wholesale business increased 8% in Fiscal 2006, while the average price per pair of shoes decreased 3% for the same period. Retail operations accounted for 75.2% of Johnston & Murphy segment sales in Fiscal 2006, down slightly from 75.3% in Fiscal 2005 primarily due to increased wholesale sales. The average price per pair of shoes for Johnston & Murphy retail decreased 5% (7% in the Johnston & Murphy shops) in Fiscal 2006, primarily due to changes in product mix, while footwear unit sales increased 7% during the same period. The store count for Johnston & Murphy retail operations at the end of Fiscal 2006 and Fiscal 2005 included 142 Johnston & Murphy stores and factory stores.

Johnston & Murphy operating income for Fiscal 2006 increased 12.6% to \$10.4 million from \$9.2 million for Fiscal 2005, primarily due to increased net sales and increased gross margin as a percentage of net sales, reflecting a healthier product mix, resulting in reduced promotional selling and improvements in sourcing.

[Table of Contents](#)*Licensed Brands*

	Fiscal Year Ended		% Change
	2006	2005	
	(dollars in thousands)		
Net sales	\$ 58,730	\$ 63,508	(7.5)%
Operating income	\$ 4,167	\$ 6,075	(31.4)%
Operating margin	7.1%	9.6%	

Licensed Brands' net sales, primarily consisting of sales of Dockers® branded footwear sold under a license from Levi Strauss & Co., decreased 7.5% to \$58.7 million for Fiscal 2006 from \$63.5 million for Fiscal 2005. Unit sales for Dockers Footwear decreased 11% for Fiscal 2006 while the average price per pair of shoes increased 3% for the same period. The sales decrease reflected some product quality issues, a change in merchandising strategy of a key customer and other customers pursuing private label initiatives at the expense of branded product offerings.

Licensed Brands' operating income for Fiscal 2006 decreased 31.4% from \$6.1 million for Fiscal 2005 to \$4.2 million, primarily due to decreased net sales, decreased gross margin as a percentage of net sales, reflecting changes in product mix, and to increased expenses as a percentage of net sales.

Corporate, Interest Expenses and Other Charges

Corporate and other expenses for Fiscal 2006 were \$26.1 million compared to \$24.8 million for Fiscal 2005. Corporate and other expenses for Fiscal 2006 included \$2.3 million of restructuring and other charges, primarily for settlement of a previously announced class action lawsuit, retail store asset impairments and lease terminations of 13 Jarman stores. Corporate and other expenses for Fiscal 2005 included \$1.2 million of restructuring and other charges, primarily for lease terminations of 20 Jarman stores and retail store asset impairments offset by the gain on the curtailment of the Company's defined pension benefit plan. In addition to the listed items in both periods, the increase in corporate expenses for Fiscal 2006 is attributable primarily to increased bonus accruals and restricted stock expense.

Interest expense increased 1% from \$11.4 million in Fiscal 2005 to \$11.5 million in Fiscal 2006, primarily due to the increase in bank activity fees as a result of new stores added from the acquisition of Hat World and new stores opened during the year, offset by decreased revolver borrowings in Fiscal 2006 versus Fiscal 2005. Borrowings under the Company's revolving credit facility averaged less than \$0.1 million for Fiscal 2006. Borrowings under the Company's revolving credit facility averaged \$5.2 million for Fiscal 2005.

Interest income increased 173.7% from \$0.4 million in Fiscal 2005 to \$1.1 million in Fiscal 2006, due to the increase in average short-term investments and increased interest rates.

Results of Operations –Fiscal 2005 Compared to Fiscal 2004

The Company's net sales for Fiscal 2005 increased 32.9% to \$1.1 billion from \$837.4 million in Fiscal 2004. Gross margin increased 41.7% to \$551.1 million in Fiscal 2005 from \$388.8 million in Fiscal 2004 and increased as a percentage of net sales from 46.4% to 49.5%. Selling and administrative expenses in Fiscal 2005 increased 38.8% from Fiscal 2004 and increased as a percentage of net sales from 39.7% to 41.5%. The Company records buying and merchandising

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and occupancy costs in selling and administrative expense. Because the Company does not include these costs in cost of sales, the Company's gross margin may not be comparable to other retailers that include these costs in the calculation of gross margin. Explanations of the changes in results of operations are provided by business segment in discussions following these introductory paragraphs.

Earnings before income taxes from continuing operations ("pretax earnings") for Fiscal 2005 were \$77.1 million compared to \$44.4 million for Fiscal 2004. Pretax earnings for Fiscal 2005 included restructuring and other charges of \$1.2 million, primarily for lease terminations of 20 Jarman stores and retail asset impairments offset by the gain on the curtailment of the Company's defined benefit pension plan. These lease terminations were part of the 48 stores the Company announced in the fourth quarter of Fiscal 2004 that it planned to close in Fiscal 2005. See "Significant Developments." Pretax earnings for Fiscal 2004 included restructuring and other charges of \$1.9 million, primarily for asset impairments offset by excess provisions relating to facility shutdown costs recorded in Fiscal 2002. In addition, Fiscal 2004 included a \$2.6 million loss on early retirement of debt. See "Significant Developments."

Net earnings for Fiscal 2005 were \$48.2 million (\$1.91 diluted earnings per share) compared to \$28.1 million (\$1.20 diluted earnings per share) for Fiscal 2004. Net earnings for Fiscal 2005 included \$0.2 million (\$0.01 diluted earnings per share) charge to earnings (net of tax) primarily for anticipated costs of environmental remedial alternatives related to two manufacturing facilities operated by the Company, offset by \$3.3 million from settlements with certain insurance carriers regarding the sites and by excess provisions from prior discontinued operations. Net earnings for Fiscal 2004 included a \$0.9 million (\$0.04 diluted earnings per share) charge to earnings (net of tax) for environmental clean-up costs at the Company's former Volunteer Leather tannery in Whitehall, Michigan and for additional anticipated costs for a remedial investigation and feasibility study at a former knitting mill in New York. The Company recorded an effective federal income tax rate of 37.1% for Fiscal 2005 compared to 34.6% for Fiscal 2004. The year-to-year change reflects a favorable tax settlement of \$0.5 million and a tax benefit of \$0.2 million resulting from the reversal of previously accrued income taxes in Fiscal 2005 and the Company's determination in Fiscal 2004 that approximately \$1.1 million of previously accrued income taxes were no longer required. Because these amounts were reflected as current year income tax benefits for Fiscal 2005 and 2004, it reduced the Company's effective federal income tax rate for both periods.

Journeys

	Fiscal Year Ended		% Change
	2005	2004	
Net sales	\$ 521,942	\$ 468,919	11.3%
Operating income	\$ 60,065	\$ 54,710	9.8%
Operating margin	11.5%	11.7%	

Net sales from Journeys increased 11.3% to \$521.9 million for Fiscal 2005 from \$468.9 million for Fiscal 2004. The increase reflects primarily a 5% increase in comparable store sales and a 6% increase in average Journeys stores operated (i.e., the sum of the number of stores open on the first day of the fiscal year and the last day of each fiscal month during the year divided by thirteen). Footwear unit comparable sales also increased 7%, primarily reflecting the increase in comparable store sales. The average price per pair of shoes decreased 2% in Fiscal 2005, primarily reflecting

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fashion-related changes in product mix, while unit sales increased 13% during the same period. The comparable sales performance was primarily driven by the moderation in the decline in average selling price from 8% in the fourth quarter of Fiscal 2004 to 2% for Fiscal 2005 and by continued growth in unit comparable sales. The store count for Journeys was 695 stores at the end of Fiscal 2005, including 41 Journeys Kidz stores, compared to 665 Journeys stores at the end of Fiscal 2004, including 40 Journeys Kidz stores.

Journeys operating income for Fiscal 2005 increased 9.8% to \$60.1 million, compared to \$54.7 million for Fiscal 2004, primarily reflecting the increase in sales and increased gross margin as a percentage of net sales, reflecting decreased markdowns.

Underground Station Group

	Fiscal Year Ended		% Change
	2005	2004	
Net sales	\$ 148,039	\$ 147,812	0.2%
Operating income	\$ 6,963	\$ 8,178	(14.9)%
Operating margin	4.7%	5.5%	

Net sales from the Underground Station Group (comprised of Underground Station and Jarman retail stores) increased 0.2% to \$148.0 million for Fiscal 2005 from \$147.8 million for Fiscal 2004. Sales for Underground Station stores increased 18% for Fiscal 2005. Sales for Jarman retail stores decreased 26% for Fiscal 2005, reflecting a 25% decrease in Jarman stores operated related to the Company's strategy of closing Jarman stores or converting them to Underground Station stores. Comparable store sales were down 3% for the Underground Station Group, with comparable store sales for Underground Station stores down 2%. The 2% comparable store sales decrease for Fiscal 2005 compares favorably to the second quarter of Fiscal 2005, when comparable store sales were down 11%. Comparable store sales for Underground Station stores increased 5% for the fourth quarter of Fiscal 2005. Footwear unit comparable sales were down 5% for the Underground Station Group for Fiscal 2005. The average price per pair of shoes was flat for Fiscal 2005, while unit sales decreased 3% during the same period. The average price per pair of shoes at Underground Station stores increased 1% during the year, primarily reflecting changes in product mix. Gross margin increased as a percentage of net sales during Fiscal 2005, reflecting decreased markdowns. Underground Station Group operated 229 stores at the end of Fiscal 2005, including 165 Underground Station stores. During Fiscal 2005, twelve Jarman stores were converted to Underground Station stores. The Company had operated 233 stores at the end of Fiscal 2004, including 137 Underground Station stores.

Underground Station Group operating income for Fiscal 2005 was down 14.9% to \$7.0 million compared to \$8.2 million for the same period last year. The decrease was due to increased expenses as a percentage of net sales.

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	Fiscal Year Ended*		% Change
	2005	2004	
	(dollars in thousands)		
Net sales	\$ 216,270	\$ -0-	NA
Operating income	\$ 30,522	\$ -0-	NA
Operating margin	14.1%	0%	

* The Company acquired Hat World on April 1, 2004. Results for Fiscal 2005 are for the period April 1, 2004 – January 29, 2005.

Hat World comparable store sales increased 11% for the ten months of Fiscal 2005. A strong gross margin contributed to the operating margin of 14.1%. Management believes that Hat World's comparable store sales increase resulted from favorable trends in consumer demand, driven by strong core sports products, particularly major league baseball, as well as strength in the fashion and branded businesses. Hat World operated 552 stores at the end of Fiscal 2005, including 19 stores in Canada. The Company acquired 486 Hat World stores on April 1, 2004 and 17 Cap Connection stores on July 1, 2004.

Johnston & Murphy

	Fiscal Year Ended		% Change
	2005	2004	
	(dollars in thousands)		
Net sales	\$ 162,599	\$ 160,095	1.6%
Operating income	\$ 9,230	\$ 4,089	125.7%
Operating margin	5.7%	2.6%	

Johnston & Murphy net sales increased 1.6% to \$162.6 million for Fiscal 2005 from \$160.1 million for Fiscal 2004, reflecting primarily a 3% increase in comparable store sales for Johnston & Murphy retail operations offset by a 4% decrease in Johnston & Murphy wholesale sales. The decrease in wholesale sales reflected the Company's strategic decision to reduce the number of individual locations in some accounts in which Johnston & Murphy products would be offered and to reduce the amount of promotional activity with the Johnston & Murphy brand in order to seek more profitable sales rather than sales growth and to emphasize Johnston & Murphy's premium position in the market place. Unit sales for the Johnston & Murphy wholesale business decreased 14% in Fiscal 2005, while the average price per pair of shoes increased 11% for the same period. Retail operations accounted for 75.3% of Johnston & Murphy segment sales in Fiscal 2005, up from 73.8% in Fiscal 2004 primarily due to decreased wholesale sales. The average price per pair of shoes for Johnston & Murphy retail increased 7% (8% in the Johnston & Murphy shops) in Fiscal 2005, primarily due to a greater emphasis on a more focused assortment of higher-end, premium footwear, while footwear unit sales decreased 6% during the same period. The store count for Johnston & Murphy retail operations at the end of Fiscal 2005 included 142 Johnston & Murphy stores and factory stores compared to 148 Johnston & Murphy stores and factory stores at the end of Fiscal 2004.

Johnston & Murphy operating income for Fiscal 2005 increased 125.7% to \$9.2 million from \$4.1 million for Fiscal 2004, primarily due to increased retail sales and increased gross margin as a

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percentage of net sales, reflecting improvements in sourcing, less promotional selling and a higher mix of premium product.

Licensed Brands

	Fiscal Year Ended		% Change
	2005	2004	
	(dollars in thousands)		
Net sales	\$ 63,508	\$ 60,274	5.4%
Operating income	\$ 6,075	\$ 4,548	33.6%
Operating margin	9.6%	7.5%	

Licensed Brands' net sales increased 5.4% to \$63.5 million for Fiscal 2005 from \$60.3 million for Fiscal 2004. The sales increase reflected increased demand for the Company's products. Unit sales for Licensed Brands increased 4% for Fiscal 2005 and the average price per pair of shoes increased 1% for the same period, reflecting less markdowns.

Licensed Brands' operating income for Fiscal 2005 increased 33.6% from \$4.5 million for Fiscal 2004 to \$6.1 million, primarily due to increased net sales, increased gross margin as a percentage of net sales, reflecting less markdowns and to decreased expenses as a percentage of net sales.

Corporate, Interest Expenses and Other Charges

Corporate and other expenses for Fiscal 2005 were \$24.8 million compared to \$19.9 million for Fiscal 2004. Corporate and other expenses for Fiscal 2005 included \$1.2 million of restructuring and other charges, primarily for lease terminations of 20 Jarman stores and retail store asset impairments offset by the gain on the curtailment of the Company's defined pension benefit plan. Corporate and other expenses for Fiscal 2004 included \$1.9 million in restructuring and other charges and a \$2.6 million charge for the early retirement of debt related to the redemption of the Company's 5 1/2% Convertible Subordinated Notes due 2005. The increase in corporate expenses is attributable primarily to higher bonus accruals and increased professional fees (including increased professional fees and audit department costs resulting from additional work to comply with the Sarbanes-Oxley legislation and related regulations) offset by the absence of the charge for early retirement of debt in Fiscal 2004.

Interest expense increased 43.9% from \$7.9 million in Fiscal 2004 to \$11.4 million in Fiscal 2005, primarily due to the additional \$100.0 million term loan, which was used to purchase Hat World, the increase in bank activity fees as a result of new stores added due to the acquisition of Hat World and an increase in revolver borrowings. Borrowings under the Company's revolving credit facility averaged \$5.2 million for Fiscal 2005. There were no borrowings under the Company's revolving credit facility during Fiscal 2004.

Interest income decreased 33.0% from \$0.6 million in Fiscal 2004 to \$0.4 million in Fiscal 2005, due to the decrease in average short-term investments.

[Table of Contents](#)**Liquidity and Capital Resources**

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

	Jan. 28, 2006	Jan. 29, 2005	Jan. 31, 2004
	(dollars in millions)		
Cash and cash equivalents	\$ 60.5	\$ 60.1	\$ 81.5
Working capital	\$ 185.0	\$ 176.2	\$ 197.6
Long-term debt	\$ 106.3	\$ 161.3	\$ 86.3

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 flow from operations has been generated principally in the fourth quarter of each fiscal year.

Cash provided by operating activities was \$105.0 million in Fiscal 2006 compared to \$99.8 million in Fiscal 2005. The \$5.2 million increase in cash flow from operating activities from last year reflects primarily an increase in cash flow from changes in accounts payable of \$15.6 million and an increase in net earnings of \$14.4 million offset by a decrease in cash flow from changes in inventory of \$18.3 million and a decrease in cash flow from changes in other accrued liabilities of \$4.0 million. The \$15.6 million increase in cash flow from accounts payable was due to changes in buying patterns and inventory growth. The \$18.3 million decrease in cash flow from inventory was due to growth in Journeys' and Hat World's inventory to support the growth in those businesses as well as the decision to carry more inventory per store in Hat World. The \$4.0 million decrease in cash flow from other accrued liabilities was due to increased bonus payments in Fiscal 2006.

The \$23.5 million increase in inventories at January 28, 2006 from January 29, 2005 levels reflects inventory purchased to support the net increase of 155 stores in Fiscal 2006 and the decision to carry more inventory per store in Hat World.

Accounts receivable at January 28, 2006 increased \$3.3 million compared to January 29, 2005 due primarily to increased tenant allowance receivables.

Cash provided by operating activities was \$99.8 million in Fiscal 2005 compared to \$68.6 million in Fiscal 2004. The \$31.2 million increase in cash flow from operating activities reflects primarily an increase in cash flow from a \$20.1 million increase in net earnings, a \$6.7 million increase in depreciation and a change in other accrued liabilities of \$20.8 million, offset by decreases in cash flow from changes in accounts receivable, accounts payable and inventory of \$11.5 million, \$11.2 million and \$6.6 million, respectively. The \$20.8 million increase in cash flow from other accrued liabilities was primarily due to increased bonus accruals. The \$11.5 million decrease in cash flow from accounts receivable was primarily due to increased wholesale sales. The \$11.2 million decrease in cash flow from accounts payable was primarily due to seasonal declines in Hat World accounts payable from acquisition date and changes in buying patterns. The \$6.6 million decrease in cash flow from inventory was due to growth in the retail businesses and the addition of Hat World.

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The \$5.2 million increase in inventories at January 29, 2005 from January 31, 2004 levels primarily reflects increases in retail inventory to support new store growth.

Accounts receivable at January 29, 2005 increased \$4.9 million compared to January 31, 2004 primarily due to increased wholesale sales.

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

	<u>2006</u>	Fiscal Year Ended <u>2005</u> (in thousands)	<u>2004</u>
Accounts payable	\$ 8,744	\$ (6,902)	\$ 4,305
Accrued liabilities	17,357	21,341	530
	<u>\$ 26,101</u>	<u>\$ 14,439</u>	<u>\$ 4,835</u>

The fluctuations in cash provided due to changes in accounts payable for Fiscal 2006 from Fiscal 2005 are due to changes in buying patterns and payment terms negotiated with individual vendors and the impact of the Hat World acquisition and for Fiscal 2005 from Fiscal 2004 are due primarily from seasonal declines in Hat World accounts payable from acquisition date. The change in cash provided due to changes in accrued liabilities for Fiscal 2006 from Fiscal 2005 was due primarily to increased bonus payments and the change in accrued liabilities for Fiscal 2005 from Fiscal 2004 was due primarily to increased bonus accruals.

Revolving credit borrowings averaged less than \$0.1 million during Fiscal 2006 and there was an average of \$5.2 million of revolving credit borrowings during Fiscal 2005, as cash generated from operations and cash on hand funded seasonal working capital requirements and capital expenditures for Fiscal 2006. On April 1, 2004, the Company entered into a new credit agreement with ten banks, providing for a \$100.0 million, five-year term loan and a \$75.0 million, five-year revolving credit facility.

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Contractual Obligations

The following tables set forth aggregate contractual obligations and commitments as of January 28, 2006, excluding contractual interest obligations.

(in thousands) Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Long-Term Debt	\$ 106,250	\$ -0-	\$ 12,500	\$ 7,500	\$ 86,250
Capital Lease Obligations	24	1	2	2	19
Operating Lease Obligations	842,552	126,701	239,167	195,872	280,812
Purchase Obligations*	232,832	232,832	-0-	-0-	-0-
Other Long-Term Liabilities	1,631	-0-	402	394	835
Total Contractual Obligations	\$ 1,183,289	\$ 359,534	\$ 252,071	\$ 203,768	\$ 367,916

(in thousands) Commercial Commitments	Amount of Commitment Expiration Per Period				
	Total Amounts Committed	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Letters of Credit	\$ 14,730	\$ 14,730	\$ -0-	\$ -0-	\$ -0-
Total Commercial Commitments	\$ 14,730	\$ 14,730	\$ -0-	\$ -0-	\$ -0-

* Open purchase orders for inventory.

Capital Expenditures

Capital expenditures were \$56.9 million, \$39.5 million and \$22.5 million for Fiscal 2006, 2005 and 2004, respectively. The \$17.4 million increase in Fiscal 2006 capital expenditures as compared to Fiscal 2005 resulted primarily from the increase in retail store capital expenditures due to 193 new store openings in Fiscal 2006. The \$17.0 million increase in Fiscal 2005 capital expenditures as compared to Fiscal 2004 resulted primarily from the addition of Hat World.

Total capital expenditures in Fiscal 2007 are expected to be approximately \$58.8 million. These include expected retail capital expenditures of \$52.4 million to open approximately 60 Journeys stores, 25 Journeys Kidz stores, eleven Shi by Journeys stores, eleven Johnston & Murphy stores and factory stores, 15 Underground Station stores, and 85 Hat World stores and to complete 80 major store renovations, including two conversions of Jarman stores to Underground Station stores. The planned amount of capital expenditures in Fiscal 2007 for wholesale operations and other purposes are expected to be approximately \$6.4 million, including approximately \$2.6 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 fund all of its planned capital expenditures through Fiscal 2007. The Company plans to borrow under its

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credit facility from time to time, particularly in the fall, to support seasonal working capital requirements. The approximately \$4.0 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 total, the Company's board of directors has authorized the repurchase, from time to time, of up to 7.5 million shares of the Company's common stock. There were 398,300 shares remaining to be repurchased under these authorizations as of January 29, 2005. The board subsequently reduced the repurchase authorization to 100,000 shares in view of the Hat World acquisition. Any purchases would be funded from available cash and borrowings under the revolving credit facility. The Company has repurchased a total of 7.1 million shares at a cost of \$71.3 million under a series of authorizations since Fiscal 1999. The Company has not repurchased any shares since Fiscal 2004.

There were \$14.7 million of letters of credit outstanding at January 28, 2006, leaving availability under the revolving credit facility of \$60.3 million. The revolving credit agreement requires the Company to meet certain financial ratios and covenants, including minimum tangible net worth, fixed charge coverage and lease adjusted debt to EBITDAR ratios. The Company was in compliance with these financial covenants at January 28, 2006.

The Company's revolving credit agreement restricts the payment of dividends and other payments with respect to common stock, including repurchases. 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 \$256,000.

On April 1, 2004, the Company entered into a credit agreement with Bank of America, N.A. and certain other lenders, providing for a \$100.0 million five year term loan and a revolving credit facility of \$75.0 million. The proceeds of the term loan were used to fund a portion of the purchase price for the Hat World acquisition. The revolving credit facility is available for working capital and general corporate purposes, and provides for the issuance of commercial and standby letters of credit.

Quarterly principal amortization of the term loan commenced during the fourth quarter of Fiscal 2005, and the final maturity of the term loan and the revolving credit facility occurs on April 1, 2009. Mandatory prepayments are required in connection with certain asset dispositions, debt issuances and equity issuances. Interest and fees are determined according to a price grid providing margins over LIBOR and an alternate base rate. The applicable margins are determined by the Company's leverage (lease adjusted debt to EBITDAR) ratio.

These credit facilities are guaranteed by each subsidiary of the Company whose assets exceed 5% of the consolidated assets of the Company and its subsidiaries or whose revenue or net income exceeds 10% of the consolidated net income of the Company and its subsidiaries. These credit facilities are secured by substantially all of the material assets of the Company and the guarantors.

The credit agreement requires the Company to maintain a consolidated tangible net worth in excess of a specified amount that is adjusted in accordance with the Company's consolidated net income. The credit agreement also requires the Company to meet specified ratio requirements with respect to leverage (lease adjusted debt to EBITDAR) and fixed charge coverage, and restricts the making

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of capital expenditures. The credit agreement also contains negative covenants restricting, among other things, indebtedness, liens, investments (including acquisitions), fundamental changes and restricted payments (including repurchasing the Company's common stock or declaring cash dividends in respect thereof).

Environmental and Other Contingencies

The Company is subject to certain loss contingencies related to environmental proceedings and other legal matters, including those disclosed in Note 13 to the Company's Consolidated Financial Statements. The Company has made accruals for certain of these contingencies, including approximately \$0.8 million reflected in Fiscal 2006, \$0.9 million reflected in Fiscal 2005 and \$1.8 million reflected in Fiscal 2004. 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 \$86.3 million 4 1/8% Convertible Subordinated Debentures due June 15, 2023 bears interest at a fixed rate. The \$20.0 million outstanding under the term loan bears interest according to a pricing grid providing margins over LIBOR or the Alternate Base Rate. The Company entered into three separate interest rate swap agreements as a means of managing its interest rate exposure on the original term loan. The notional amount of the one remaining interest rate swap agreement is \$20.0 million. Accordingly, there would be no immediate impact on the Company's interest expense due to fluctuations in market interest rates. At January 28, 2006, the net gain on this interest rate swap agreement was \$0.2 million.

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 January 28, 2006. As a result, the Company considers the interest rate market risk implicit in these investments at January 28, 2006 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 January 28, 2006, the Company had \$7.5 million of forward foreign

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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 January 28, 2006 was \$15,000 based on current spot rates. As of January 28, 2006, a 10% adverse change in foreign currency exchange rates from market rates would decrease the fair value of the contracts by approximately \$0.8 million.

Accounts Receivable – The Company's accounts receivable balance at January 28, 2006 is concentrated in its two wholesale businesses, which sell primarily to department stores and independent retailers across the United States. One customer accounted for 15% of the Company's trade accounts receivable balance and another customer accounted for 12% as of January 28, 2006. 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 January 28, 2006, 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 2007 would not be material. However, fluctuations in foreign currency exchange rates could have a material effect on the Company's consolidated financial position, results of operations or cash flows for Fiscal 2007.

New Accounting Principles

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment," which is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123(R) supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and amends SFAS No. 95, "Statement of Cash Flows." Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the Statements of Earnings based on their fair values. Pro forma disclosure is no longer an alternative. SFAS No. 123(R) covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans. The Company's board of directors has amended the Company's Employee Stock Purchase Plan to provide that participants may acquire shares under the Plan at a 5% discount from fair market value on the last day of the Plan year. Under SFAS No. 123(R), shares issued under the Plan as amended are non-compensatory and compensation expense related thereto is not required to be reflected in the Consolidated Statements of Earnings.

SFAS No. 123(R) is effective for public companies at the beginning of the first fiscal year beginning after June 15, 2005 (Fiscal 2007 for the Company).

SFAS No. 123(R) permits public companies to adopt its requirements using one of two methods:

1. A "modified prospective" method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS No. 123(R) for all share-

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based payments granted after the effective date and (b) based on the requirements of SFAS No. 123 for all awards granted to employees prior to the effective date of SFAS No. 123(R) that remain unvested on the effective date.

2. A “modified retrospective” method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under SFAS No. 123 for purposes of pro forma disclosures of all prior periods presented.

As permitted by SFAS No. 123, the Company currently accounts for share-based payments to employees using APB Opinion No. 25’s intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. However, had the Company adopted SFAS No. 123(R) in prior periods, the impact of that standard would have approximated the impact of SFAS No. 123 as described in the disclosure of pro forma net earnings and earnings per share in Note 1 to the Consolidated Financial Statements. The pro forma amounts were calculated using a Black-Scholes option pricing model and may not be indicative of amounts which should be expected in future years. Based upon research done by the Company on the alternative models available to value option grants, and in conjunction with the type and number of stock options expected to be issued in the future, the Company has determined that it will continue to use a Black-Scholes model for option valuation. SFAS No. 123(R) includes several modifications to the presentation of income taxes in the financial statements. The expense for certain types of option grants is only deductible for tax purposes at the time that the taxable event takes place, which could cause variability in the Company’s effective tax rates recorded throughout the year. SFAS No. 123(R) does not allow companies to “predict” when these taxable events will take place. SFAS No. 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. While the Company cannot estimate what those amounts will be in the future (because they depend on, among other things, when employees exercise stock options), the amount of operating cash flows recognized in prior periods for such excess tax deductions were \$3.9 million, \$3.3 million and \$0.1 million in Fiscal 2006, 2005 and 2004, respectively.

The Company will utilize the “modified prospective” method of adoption for SFAS No. 123(R). The adoption of SFAS No. 123(R)’s fair value method will have a significant impact on the Company’s results of operations, although it will have no impact on the Company’s overall financial position. The impact of adoption of SFAS No. 123(R) cannot be predicted at this time because it will depend on, among other things, levels of share-based payments granted in the future, the market value of the Company’s common stock, as well as assumptions regarding a number of complex variables such as the Company’s stock price variability and employee stock option exercise behaviors. See Note 12 to the Company’s Consolidated Financial Statements for additional information on the Company’s stock-based compensation plans.

In November 2004 the FASB issued SFAS No. 151, “Inventory Costs, an Amendment of ARB No. 43, Chapter 4”. SFAS No. 151 clarifies that inventory costs that are “abnormal” are required to be charged to expense as incurred as opposed to being capitalized into inventory as a product cost. SFAS No. 151 provides examples of “abnormal” costs to include costs of idle facilities, excess freight and handling costs, and wasted materials (spoilage). SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not believe the adoption of SFAS No. 151 will have a material impact on the

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Company's results of operations or financial position.

In March 2005 the FASB issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations – an Interpretation of FASB Statement No. 143" ("FIN 47"). FIN 47 clarifies that the term "conditional asset retirement obligation" as used in FASB Statement No. 143, "Accounting for Asset Retirement Obligations," refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. FIN 47 became effective for the Company in Fiscal 2006 and did not have a material impact on the Company's results of operations or financial position.

Inflation

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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ITEM 8, FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Management's Report on Internal Control over Financial Reporting

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

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

Management assessed the effectiveness of the Company's internal control over financial reporting as of January 28, 2006. In making this assessment, management used the criteria set forth in *Internal Control – Integrated Framework* drafted by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management believes that, as of January 28, 2006, the Company's internal control over financial reporting is effective based on these criteria.

Management's assessment of the effectiveness of internal control over financial reporting as of January 28, 2006, has been audited by Ernst & Young LLP, the independent registered public accounting firm who also audited the Company's Consolidated Financial Statements. Ernst & Young's attestation report on management's assessment of the Company's internal control over financial reporting appears on page 46 hereof.

Dated: April 11, 2006

/s/ Hal N. Pennington

Hal N. Pennington
Chairman, President and
Chief Executive Officer

/s/ James S. Gulmi

James S. Gulmi
Senior Vice President — Finance and
Chief Financial Officer

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

The Board of Directors and Shareholders
Genesco Inc.

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Genesco Inc. maintained effective internal control over financial reporting as of January 28, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Genesco Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, management's assessment that Genesco Inc. maintained effective internal control over financial reporting as of January 28, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Genesco Inc. maintained, in all material respects, effective internal control over financial reporting as of January 28, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Genesco Inc. as of January 28, 2006 and January 29, 2005, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three years in the period ended January 28, 2006 and our report dated April 11, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Nashville, Tennessee
April 11, 2006

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Genesco Inc.

We have audited the accompanying consolidated balance sheets of Genesco Inc. and Subsidiaries (the "Company") as of January 28, 2006 and January 29, 2005, and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the three fiscal years in the period ended January 28, 2006. Our audits also included the financial statement schedule referenced in Item 15. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Genesco Inc. and Subsidiaries at January 28, 2006 and January 29, 2005, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended January 28, 2006, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of January 28, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 11, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Nashville, Tennessee
April 11, 2006

**Genesco Inc.
and Subsidiaries**
Consolidated Balance Sheets
In Thousands, except share amounts

Assets	As of Fiscal Year End	
	2006	2005
Current Assets		
Cash and cash equivalents	\$ 60,451	\$ 60,068
Accounts receivable, net of allowances of \$1,439 at January 28, 2006 and \$2,166 at January 29, 2005	21,171	17,906
Inventories	230,648	207,197
Deferred income taxes	8,649	2,699
Prepays and other current assets	20,269	18,049
Total current assets	341,188	305,919
Property and equipment:		
Land	4,972	4,972
Buildings and building equipment	14,723	14,565
Computer hardware, software and equipment	60,289	54,445
Furniture and fixtures	67,036	58,679
Construction in progress	11,728	6,085
Improvements to leased property	187,083	158,692
Property and equipment, at cost	345,831	297,438
Accumulated depreciation	(157,784)	(128,768)
Property and equipment, net	188,047	168,670
Deferred income taxes	-0-	329
Goodwill	96,235	97,223
Trademarks	47,671	47,633
Other intangibles, net of accumulated amortization of \$4,302 at January 28, 2006 and \$1,954 at January 29, 2005	4,284	6,632
Other noncurrent assets	8,693	9,165
Total Assets	\$ 686,118	\$ 635,571

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

	2006	2005	Fiscal Year 2004
Net sales	\$ 1,283,876	\$ 1,112,681	\$ 837,379
Cost of sales	631,469	561,597	448,601
Selling and administrative expenses	537,327	461,799	332,694
Restructuring and other, net	2,253	1,221	1,854
Earnings from operations	112,827	88,064	54,230
Loss on early retirement of debt	-0-	-0-	2,581
Interest expense, net:			
Interest expense	11,482	11,373	7,902
Interest income	(1,125)	(411)	(613)
Total interest expense, net	10,357	10,962	7,289
Earnings before income taxes from continuing operations	102,470	77,102	44,360
Income tax expense	39,844	28,642	15,335
Earnings from continuing operations	62,626	48,460	29,025
Earnings from (provision for) discontinued operations, net	60	(211)	(888)
Net Earnings	\$ 62,686	\$ 48,249	\$ 28,137
Basic earnings per common share:			
Continuing operations	\$ 2.73	\$ 2.19	\$ 1.32
Discontinued operations	\$.01	\$ (.01)	\$ (.04)
Net earnings	\$ 2.74	\$ 2.18	\$ 1.28
Diluted earnings per common share:			
Continuing operations	\$ 2.38	\$ 1.92	\$ 1.24
Discontinued operations	\$.00	\$ (.01)	\$ (.04)
Net earnings	\$ 2.38	\$ 1.91	\$ 1.20

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

**Genesco Inc.
and Subsidiaries**
Consolidated Statements of Cash Flows
In Thousands

	2006	2005	Fiscal Year 2004
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	\$ 62,686	\$ 48,249	\$ 28,137
Tax benefit of stock options exercised	3,850	3,264	69
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:			
Depreciation	34,622	31,266	24,607
Provision for legal settlement	1,659	-0-	-0-
Deferred income taxes	(5,065)	6,061	(119)
Provision for losses on accounts receivable	29	3	271
Impairment of long-lived assets	376	1,017	3,794
Restricted stock and other stock compensation	972	271	181
Restructuring gain	-0-	-0-	(1,940)
(Earnings from) provision for discontinued operations	(98)	339	1,433
Other	3,803	2,847	2,344
Effect on cash of changes in working capital and other assets and liabilities net of acquisitions:			
Accounts receivable	(3,294)	(4,900)	6,564
Inventories	(23,452)	(5,192)	1,388
Prepays and other current assets	(2,220)	(2,743)	(1,276)
Accounts payable	8,744	(6,902)	4,305
Other accrued liabilities	17,357	21,341	530
Other assets and liabilities	5,032	4,863	(1,643)
Net cash provided by operating activities	105,001	99,784	68,645
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(56,946)	(39,480)	(22,540)
Acquisitions, net of cash acquired	-0-	(167,676)	-0-
Proceeds from sale of property and equipment	21	12	683
Net cash used in investing activities	(56,925)	(207,144)	(21,857)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payments of long-term debt	(55,000)	(25,000)	(103,245)
Payments of capital leases	(358)	(480)	-0-
Long-term borrowings	-0-	100,000	86,250
Stock repurchases	-0-	-0-	(1,901)
Change in overdraft balances	(414)	5,544	(44)
Dividends paid on non-redeemable preferred stock	(273)	(292)	(294)
Options exercised and shares issued in employee stock purchase plan	8,352	9,467	1,028
Financing costs paid	-0-	(3,360)	(2,961)
Other	-0-	-0-	(1)
Net cash (used in) provided by financing activities	(47,693)	85,879	(21,168)
Net Cash Flows	383	(21,481)	25,620
Cash and cash equivalents at beginning of year	60,068	81,549	55,929
Cash and cash equivalents at end of year	\$ 60,451	\$ 60,068	\$ 81,549
Supplemental Cash Flow Information:			
Net cash paid for:			
Interest	\$ 10,368	\$ 9,854	\$ 8,496
Income taxes	32,510	23,796	10,630

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

**Genesco Inc.
and Subsidiaries**
Consolidated Statements of Shareholders' Equity
In Thousands

	Total Non-Redeemable Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Comprehensive Income	Total Share- holders' Equity
Balance February 1, 2003	7,599	22,222	97,488	101,019	(30,452)	(17,857)		180,019
Net earnings	-0-	-0-	-0-	28,137	-0-	-0-	28,137	28,137
Dividends paid on non-redeemable preferred stock	-0-	-0-	-0-	(294)	-0-	-0-	-0-	(294)
Exercise of options	-0-	45	624	-0-	-0-	-0-	-0-	669
Issue shares — Employee Stock Purchase Plan	-0-	32	327	-0-	-0-	-0-	-0-	359
Tax effect of exercise of stock options	-0-	-0-	69	-0-	-0-	-0-	-0-	69
Stock repurchases	-0-	(117)	(1,784)	-0-	-0-	-0-	-0-	(1,901)
Gain on foreign currency forward contracts (net of tax of \$0.6 million)	-0-	-0-	-0-	-0-	985	-0-	985	985
Minimum pension liability adjustment (net of tax of \$2.8 million)	-0-	-0-	-0-	-0-	4,303	-0-	4,303	4,303
Other	(19)	30	(112)	-0-	-0-	-0-	-0-	(101)
Comprehensive income							33,425	
Balance January 31, 2004	7,580	22,212	96,612	128,862	(25,164)	(17,857)		212,245
Net earnings	-0-	-0-	-0-	48,249	-0-	-0-	48,249	48,249
Dividends paid on non-redeemable preferred stock	-0-	-0-	-0-	(292)	-0-	-0-	-0-	(292)
Exercise of options	-0-	667	8,448	-0-	-0-	-0-	-0-	9,115
Issue shares — Employee Stock Purchase Plan	-0-	25	327	-0-	-0-	-0-	-0-	352
Tax benefit of stock options exercised	-0-	-0-	3,264	-0-	-0-	-0-	-0-	3,264
Loss on foreign currency forward contracts (net of tax benefit of \$0.6 million)	-0-	-0-	-0-	-0-	(905)	-0-	(905)	(905)
Gain on interest rate swaps (net of tax of \$0.1 million)	-0-	-0-	-0-	-0-	157	-0-	157	157
Foreign currency translation adjustment	-0-	-0-	-0-	-0-	101	-0-	101	101
Minimum pension liability adjustment (net of tax benefit of \$0.6 million)	-0-	-0-	-0-	-0-	(491)	-0-	(491)	(491)
Other	(106)	22	354	-0-	-0-	-0-	-0-	270
Comprehensive income							\$ 47,111	
Balance January 29, 2005	\$ 7,474	\$ 22,926	\$ 109,005	\$ 176,819	\$ (26,302)	\$ (17,857)		\$ 272,065
Net earnings	-0-	-0-	-0-	62,686	-0-	-0-	62,686	62,686
Dividends paid on non-redeemable preferred stock	-0-	-0-	-0-	(273)	-0-	-0-	-0-	(273)
Exercise of options	-0-	547	8,297	-0-	-0-	-0-	-0-	8,844
Employee restricted stock	-0-	229	400	-0-	-0-	-0-	-0-	629
Issue shares — Employee Stock Purchase Plan	-0-	25	483	-0-	-0-	-0-	-0-	508
Tax benefit of stock options exercised	-0-	-0-	3,850	-0-	-0-	-0-	-0-	3,850
Conversion of Series 4 preferred stock	(723)	11	712	-0-	-0-	-0-	-0-	-0-
Loss on foreign currency forward contracts (net of tax benefit of \$0.7 million)	-0-	-0-	-0-	-0-	(1,047)	-0-	(1,047)	(1,047)
Gain on interest rate swaps (net of tax of \$0.1 million)	-0-	-0-	-0-	-0-	61	-0-	61	61
Minimum pension liability adjustment (net of tax of \$0.7 million)	-0-	-0-	-0-	-0-	1,084	-0-	1,084	1,084
Other	(56)	10	390	-0-	-0-	-0-	-0-	344
Comprehensive income							\$ 62,784	
Balance January 28, 2006	\$ 6,695	\$ 23,748	\$ 123,137	\$ 239,232	\$ (26,204)	\$ (17,857)		\$ 348,751

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

Note 1
Summary of Significant Accounting Policies

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 January 28, 2006 of 1,773 *Journeys*, *Journeys Kidz*, *Johnston & Murphy*, *Underground Station*, *Jarman*, *Hat World*, *Lids*, *Hat Zone*, *Cap Connection* and *Head Quarters* retail footwear and headwear stores.

Principles of Consolidation

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

Fiscal Year

The Company's fiscal year ends on the Saturday closest to January 31. As a result, Fiscal 2006, Fiscal 2005 and Fiscal 2004 were 52-week years with 364 days each. Fiscal Year 2006 ended on January 28, 2006, Fiscal Year 2005 ended on January 29, 2005 and Fiscal Year 2004 ended on January 31, 2004.

Financial Statement Reclassifications

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

Use of Estimates

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

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.

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 Definite-Lived Long-Lived Assets

The Company periodically assesses the realizability of its definite-lived 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 of the value of held and used definite-lived long-lived assets.

Note 1
Summary of Significant Accounting Policies, Continued

Environmental and Other Contingencies

The Company is subject to certain loss contingencies related to environmental proceedings and other legal matters, including those disclosed in Note 13 to the Company's 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 circumstance 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. 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.

Pension Plan Accounting

In December 2003, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits." This statement revised employers' disclosures about pension plans and other post retirement benefit plans. It did not change the measurement or recognition of those plans required by SFAS No. 87, "Employers' Accounting for Pensions."

The Company accounts for the defined benefit pension plans using SFAS No. 87, "Employers' Accounting for Pensions." 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.

Note 1
Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents

Included in cash and cash equivalents at January 28, 2006 and January 29, 2005 are cash equivalents of \$48.5 million and \$51.3 million, respectively. Cash equivalents are highly-liquid debt 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 January 28, 2006 and January 29, 2005, outstanding checks drawn on zero-balance accounts at certain domestic banks exceeded book cash balances at those banks by approximately \$17.2 million and \$17.6 million, respectively. These amounts are included in accounts payable.

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. One customer accounted for 15% of the Company's trade receivables balance and another customer accounted for 12% as of January 28, 2006 and no other customer accounted for more than 7% of the Company's trade receivables balance as of January 28, 2006.

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 Consolidated Statements of Earnings.

Note 1

Summary of Significant Accounting Policies, Continued

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.

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

Goodwill and Other Intangibles

Under the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets," 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."

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. 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.

**Genesco Inc.
and Subsidiaries**
Notes to Consolidated Financial Statements

Note 1
Summary of Significant Accounting Policies, Continued

Fair Value of Financial Instruments

The carrying amounts and fair values of the Company's financial instruments at January 28, 2006 and January 29, 2005 are:

Fair Values

In thousands	Carrying Amount	2006 Fair Value	Carrying Amount	2005 Fair Value
Fixed Rate Long-term Debt	\$ 86,250	\$ 157,406	\$ 86,250	\$ 125,367

Carrying amounts reported on the balance sheet for cash, cash equivalents, receivables, foreign currency hedges, interest rate swap and accounts payable approximate fair value due to the short-term maturity of these instruments.

The fair value of the Company's long-term debt was based on dealer prices on the respective balance sheet dates.

Postretirement Benefits

Substantially all full-time employees, except employees in the Hat World segment, 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.

Cost of Sales

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

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

Selling and Administrative Expenses

Selling and administrative expenses include all operating costs of the Company excluding (i) those related to the transportation of products from the supplier to the warehouse, (ii) for its retail operations, those related to the transportation of products from the warehouse to the store and (iii) costs of its distribution facilities which are allocated to its retail operations. Wholesale and unallocated retail costs of distribution are included in selling and administrative expenses in the amounts of \$4.5 million, \$5.9 million and \$8.7 million for Fiscal 2006, 2005 and 2004, respectively.

Note 1
Summary of Significant Accounting Policies, Continued

Buying, Merchandising and Occupancy Costs

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.

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 Statements of Earnings.

Store Closings and Exit Costs

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

Note 1
Summary of Significant Accounting Policies, Continued

Advertising Costs

Advertising costs are predominantly expensed as incurred. Advertising costs were \$29.1 million, \$25.0 million and \$20.3 million for Fiscal 2006, 2005 and 2004, 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 Consolidated Balance Sheets included prepaid assets for direct response advertising costs of \$0.9 million and \$1.2 million at January 28, 2006 and January 29, 2005.

Consideration to Resellers

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

Cooperative Advertising

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

Cooperative advertising costs recognized in selling and administrative expenses were \$2.2 million, \$2.4 million and \$2.5 million in Fiscal 2006, 2005 and 2004, respectively. During Fiscal 2006, 2005 and 2004, the Company's cooperative advertising reimbursements paid did not exceed the fair value of the benefits received under those agreements.

Note 1
Summary of Significant Accounting Policies, Continued

Vendor Allowances

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

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

Vendor reimbursements of cooperative advertising costs recognized as a reduction of selling and administrative expenses were \$3.6 million, \$3.7 million and \$2.3 million for Fiscal 2006, 2005 and 2004, respectively. During Fiscal 2006, 2005 and 2004, 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.

Income Taxes

Deferred income taxes are provided for all temporary differences and operating loss and tax credit carryforwards are limited, in the case of deferred tax assets, to the amount the Company believes is more likely than not to be realized in the foreseeable future.

Note 1
Summary of Significant Accounting Policies, Continued

Earnings Per Common Share

Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities to issue common stock were exercised or converted to common stock (see Note 11).

Other Comprehensive Income

SFAS No. 130, "Reporting Comprehensive Income," requires, among other things, the Company's minimum pension liability adjustment, unrealized gains or losses on foreign currency forward contracts, unrealized gains and losses on interest rate swaps and foreign currency translation adjustments to be included in other comprehensive income net of tax. Accumulated other comprehensive loss at January 28, 2006 consists of \$25.9 million of cumulative minimum pension liability adjustments, net of tax, cumulative net losses of \$0.6 million on foreign currency forward contracts, net of tax, cumulative net gains of \$0.2 million on interest rate swaps, net of tax, and a foreign currency translation adjustment of \$0.1 million.

Business Segments

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," requires that companies disclose "operating segments" based on the way management disaggregates the Company for making internal operating decisions (see Note 14).

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 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.

**Genesco Inc.
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Notes to Consolidated Financial Statements

Note 1
Summary of Significant Accounting Policies, Continued

Stock Incentive Plans

As of January 28, 2006, the Company had two fixed stock incentive plans. Under the new 2005 Equity Incentive Plan, effective as of June 23, 2005, the Company may grant options, restricted shares and other stock-based awards to its management personnel as well as directors for up to 1.0 million shares of common stock. Under the 1996 Stock Incentive Plan, the Company granted options to management personnel as well as directors for up to 4.4 million shares of common stock. There will be no future awards under the 1996 Stock Incentive Plan. The Company accounts for these plans under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. In April 2005, 36,764 shares of restricted stock granted to the chairman, president and chief executive officer of the Company in April 2002 vested and their fair value was charged against income as compensation cost over the vesting period. The Company's only outstanding, unvested restricted stock under the 1996 Stock Incentive Plan consists of shares granted to non-employee directors. Under the 2005 Equity Incentive Plan, the Company issued 228,594 shares of restricted stock in October and December 2005. The fair value of this stock is charged against income as compensation cost over the vesting period. Compensation cost of \$0.6 million, \$0.4 million and \$0.5 million, net of tax, for Fiscal 2006, 2005 and 2004, respectively, has been charged against income for restricted stock granted under the Company's stock incentive plans. No other stock incentive plan compensation is reflected in net earnings, as all other awards under the fixed stock incentive plans were options with an exercise price equal to the market value of the underlying common stock on the date of grant. Had compensation cost for all of the Company's stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with the methodology prescribed by SFAS No. 123, "Accounting for Stock-Based Compensation" (as amended by SFAS No. 148), the Company's net earnings and earnings per share would have been reduced to the pro forma amounts indicated below:

(In thousands, except per share amounts)	Fiscal Years		
	2006	2005	2004
Net income, as reported	\$ 62,686	\$ 48,249	\$ 28,137
<i>Add:</i> stock-based employee compensation expense included in reported net earnings, net of related tax effects	648	418	520
<i>Deduct:</i> total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(3,699)	(2,853)	(2,320)
Pro forma net earnings	\$ 59,635	\$ 45,814	\$ 26,337
Earnings per share:			
Basic — as reported	\$ 2.74	\$ 2.18	\$ 1.28
Basic — pro forma	\$ 2.60	\$ 2.07	\$ 1.20
Diluted — as reported	\$ 2.38	\$ 1.91	\$ 1.20
Diluted — pro forma	\$ 2.27	\$ 1.82	\$ 1.13

Note 1

Summary of Significant Accounting Policies, Continued

For purposes of applying SFAS No. 123 for Fiscal 2006, the Company refined its volatility input assumption and believes that such refinement is consistent with requirements under SFAS No. 123(R). Historically during Fiscal 2005 and 2004, the volatility assumption was calculated based on historical stock price changes over the expected term. Beginning in Fiscal 2006, based on research done by the Company on alternative methods for valuing option grants, the Company determined the volatility assumption would be calculated using implied volatilities of traded Genesco options combined with historical term structure. The weighted average volatility assumption used for Fiscal 2006 was 42%, as compared to a weighted average volatility assumption of 60% for Fiscal 2005 and 61% for Fiscal 2004. Had the Company used the methodologies employed in prior years to estimate stock option valuation assumptions, the weighted average fair value of an option granted in Fiscal 2006 would have increased by approximately 16%.

New Accounting Principles

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment," which is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123(R) supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and amends SFAS No. 95, "Statement of Cash Flows." Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the Statements of Earnings based on their fair values. Pro forma disclosure is no longer an alternative. SFAS No. 123(R) covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans. The Company's board of directors has amended the Company's Employee Stock Purchase Plan to provide that participants may acquire shares under the Plan at a 5% discount from fair market value on the last day of the Plan year. Under SFAS No. 123(R), shares issued under the Plan as amended are non-compensatory and compensation expense related thereto is not required to be reflected in the Consolidated Statements of Earnings.

SFAS No. 123(R) is effective for public companies at the beginning of the first fiscal year beginning after June 15, 2005 (Fiscal 2007 for the Company).

SFAS No. 123(R) permits public companies to adopt its requirements using one of two methods:

1. A "modified prospective" method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS No. 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of SFAS No. 123 for all awards granted to employees prior to the effective date of SFAS No. 123(R) that remain unvested on the effective date.

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Notes to Consolidated Financial Statements

Note 1

Summary of Significant Accounting Policies, Continued

2. A “modified retrospective” method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under SFAS No. 123 for purposes of pro forma disclosures of all prior periods presented.

As permitted by SFAS No. 123, the Company currently accounts for share-based payments to employees using APB Opinion No. 25’s intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. However, had the Company adopted SFAS No. 123(R) in prior periods, the impact of that standard would have approximated the impact of SFAS No. 123 as described in the disclosure of pro forma net earnings and earnings per share set forth above. The pro forma amounts were calculated using a Black-Scholes option pricing model and may not be indicative of amounts which should be expected in future years. Based upon research done by the Company on the alternative models available to value option grants, and in conjunction with the type and number of stock options expected to be issued in the future, the Company has determined that it will continue to use a Black-Scholes model for option valuation. SFAS No. 123(R) includes several modifications to the presentation of income taxes in the financial statements. The expense for certain types of option grants is only deductible for tax purposes at the time that the taxable event takes place, which could cause variability in the Company’s effective tax rates recorded throughout the year. SFAS No. 123(R) does not allow companies to “predict” when these taxable events will take place. SFAS No. 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. While the Company cannot estimate what those amounts will be in the future (because they depend on, among other things, when employees exercise stock options), the amount of operating cash flows recognized in prior periods for such excess tax deductions were \$3.9 million, \$3.3 million and \$0.1 million in Fiscal 2006, 2005 and 2004, respectively.

The Company will utilize the “modified prospective” method of adoption for SFAS No. 123(R). The adoption of SFAS No. 123(R)’s fair value method will have a significant impact on the Company’s results of operations, although it will have no impact on the Company’s overall financial position. The impact of adoption of SFAS No. 123(R) cannot be predicted at this time because it will depend on, among other things, levels of share-based payments granted in the future, the market value of the Company’s common stock, as well as assumptions regarding a number of complex variables such as the Company’s stock price variability and employee stock option exercise behaviors. See Note 12 to the Company’s Consolidated Financial Statements for additional information on the Company’s stock-based compensation plans.

**Genesco Inc.
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Notes to Consolidated Financial Statements**

Note 1

Summary of Significant Accounting Policies, Continued

In November 2004 the FASB issued SFAS No. 151, "Inventory Costs, an Amendment of ARB No. 43, Chapter 4". SFAS No. 151 clarifies that inventory costs that are "abnormal" are required to be charged to expense as incurred as opposed to being capitalized into inventory as a product cost. SFAS No. 151 provides examples of "abnormal" costs to include costs of idle facilities, excess freight and handling costs, and wasted materials (spoilage). SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not believe the adoption of SFAS No. 151 will have a material impact on the Company's results of operations or financial position.

In March 2005 the FASB issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations — an Interpretation of FASB Statement No. 143" ("FIN 47"). FIN 47 clarifies that the term "conditional asset retirement obligation" as used in FASB Statement No. 143, "Accounting for Asset Retirement Obligations," refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. FIN 47 became effective for the Company in Fiscal 2006 and did not have a material impact on the Company's results of operations or financial position.

Note 2

Acquisitions

Hat World Acquisition

On April 1, 2004, the Company completed the acquisition of 100% of the outstanding common shares of Hat World Corporation ("Hat World") for a total purchase price of approximately \$179 million, including adjustments for \$12.6 million of net cash acquired, a \$1.2 million subsequent working capital adjustment and direct acquisition expenses of \$2.8 million. The results of Hat World's operations have been included in the consolidated financial statements since that date. Headquartered in Indianapolis, Indiana, Hat World is a leading specialty retailer of licensed and branded headwear. The Company believes the acquisition has enhanced its strategic development and prospects for growth.

**Genesco Inc.
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Note 2**Acquisitions, Continued**

The acquisition has been accounted for using the purchase method in accordance with SFAS No. 141, "Business Combinations." Accordingly, the total purchase price has been allocated to the assets acquired and liabilities assumed based on their estimated fair values at acquisition as follows (amounts in thousands):

At April 1, 2004

Inventories	\$ 33,888
Property and equipment	24,278
Unamortizable intangible assets (indefinite-lived trademarks)	47,324
Amortizable intangibles (primarily lease write-up)	8,586
Goodwill	96,235
Other assets	4,850
Accounts payable	(19,036)
Noncurrent deferred tax liability	(22,828)
Other liabilities	(6,979)
Net Assets Acquired	<u>\$ 166,318</u>

The trademarks acquired include the concept names and are deemed to have an indefinite life. Finite-lived intangibles include a \$0.3 million customer list and an \$8.3 million asset to reflect the adjustment of acquired leases to market. The weighted average amortization period for the asset to adjust acquired leases to market is 4.2 years. The amortization of intangibles was \$2.3 million and \$2.0 million for Fiscal 2006 and 2005, respectively. The amortization of intangibles for Fiscal 2007, 2008, 2009, 2010 and 2011 will be \$1.7 million, \$1.2 million, \$0.7 million, \$0.4 million and \$0.2 million, respectively. The goodwill related to the Hat World acquisition is not deductible for tax purposes. Goodwill decreased \$0.7 million in the second quarter of Fiscal 2006 due to a reduction of income taxes payable and \$0.3 million in the fourth quarter of Fiscal 2006 due to the recognition of deferred tax assets.

The following pro forma information presents the results of operations of the Company as if the Hat World acquisition had taken place at the beginning of Fiscal 2005. Pro forma adjustments have been made to reflect additional interest expense from the \$100.0 million in debt associated with the acquisition. The pro forma results of operations include \$2.0 million of non-recurring transaction costs incurred by Hat World for the two months ended March 31, 2004.

In thousands, except per share data	Actual 2006	Pro forma	
		2005	2004
Net sales	\$ 1,283,876	\$ 1,145,642	\$ 1,036,798
Net earnings	62,686	46,799	34,500
Net earnings per share:			
Basic	\$ 2.74	\$ 2.11	\$ 1.57
Diluted	\$ 2.38	\$ 1.86	\$ 1.46

**Genesco Inc.
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Notes to Consolidated Financial Statements**

Note 2

Acquisitions, Continued

The pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations that would have occurred had the Hat World acquisition occurred at the beginning of all periods presented.

Cap Connection Acquisition

On July 1, 2004, the Company acquired the assets and business of Edmonton, Alberta-based Cap Connection Ltd., a Canadian specialty retailer of headwear. The purchase price for the Cap Connection business was approximately \$1.7 million. At January 28, 2006, there were 18 Cap Connection and Head Quarters stores in Alberta, British Columbia and Ontario, Canada.

**Genesco Inc.
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Note 3**Restructuring and Other Charges and Discontinued Operations****Restructuring and Other Charges**

The Company recorded a pretax charge to earnings of \$2.3 million (\$1.4 million net of tax) in Fiscal 2006. The charge included \$1.7 million for the settlement of a California employment class action and \$0.6 million for retail store asset impairments and lease terminations of thirteen Jarman stores. These lease terminations are the continuation of a plan previously announced by the Company in Fiscal 2004.

The Company recorded a pretax charge to earnings of \$1.2 million (\$0.8 million net of tax) in Fiscal 2005. The charge included \$1.8 million for lease terminations of 20 Jarman stores and retail store asset impairments offset by the recognition of a \$0.6 million gain on the curtailment of the Company's defined benefit pension plan.

The Company recorded a pretax charge to earnings of \$1.9 million (\$1.2 million net of tax) in Fiscal 2004. The charge included \$3.8 million in asset impairments related to underperforming retail stores identified as suitable for closing if acceptable lease terminations could be negotiated, most of which were Jarman stores. The charge is net of recognition of \$1.9 million of excess restructuring provisions primarily relating to facility shutdown costs originally accrued in Fiscal 2002. In accordance with SFAS No. 146, the Company revised its estimated liability and reduced the lease obligation during the period that the early lease termination was contractually obtained.

In accordance with Company policy, the Company evaluated assets at these identified stores for impairment when a strategic decision was made during the fourth quarter of Fiscal 2004 to pursue the closure of these stores. Assets were determined to be impaired when the revised estimated future cash flows were 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 Statements of Earnings.

Restructuring Reserves

<u>In thousands</u>	<u>Employee Related Costs</u>	<u>Facility Shutdown Costs</u>	<u>Total</u>
Balance January 31, 2004 (included in other accrued liabilities)	\$ 54	\$ 453	\$ 507
Charges and adjustments, net	(54)	(453)	(507)
Balance January 29, 2005	\$ -0-	\$ -0-	\$ -0-
Charges and adjustments, net	-0-	-0-	-0-
Balance January 28, 2006	\$ -0-	\$ -0-	\$ -0-

**Genesco Inc.
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Notes to Consolidated Financial Statements

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

For the year ended January 28, 2006, the Company recorded a credit to earnings of \$0.1 million (\$0.1 million net of tax) reflected in discontinued operations, including a \$0.9 million gain for excess provisions to prior discontinued operations offset by \$0.8 million for anticipated costs of environmental remedial alternatives related to former facilities operated by the Company (see Note 13).

For the year ended January 29, 2005, the Company recorded an additional charge to earnings of \$0.3 million (\$0.2 million net of tax) reflected in discontinued operations, including \$1.0 million for anticipated costs of environmental remedial alternatives related to two manufacturing facilities formerly operated by the Company, offset by a \$0.7 million gain for excess provisions to prior discontinued operations (see Note 13).

In the fourth quarter ended January 31, 2004, the Company recorded an additional charge to earnings of \$1.4 million (\$0.9 million net of tax) reflected in discontinued operations, including \$0.6 million for the Company's former Volunteer Leather tannery in Whitehall, Michigan, and \$0.8 million primarily for additional costs of a remedial investigation and feasibility study at its former knitting mill in New York (see Note 13).

Accrued Provision for Discontinued Operations

In thousands	Facility Shutdown Costs	Other	Total
Balance January 31, 2004	\$ 3,021	\$ 2	\$ 3,023
Additional provisions Fiscal 2005	911	-0-	911
Charges and adjustments, net	1,868	1	1,869
Balance January 29, 2005	5,800	3	5,803
Excess provision Fiscal 2006	(98)	-0-	(98)
Charges and adjustments, net	8	-0-	8
Balance January 28, 2006*	5,710	3	5,713
Current provision for discontinued operations	4,030	3	4,033
Total Noncurrent Provision for Discontinued Operations	\$ 1,680	\$ -0-	\$ 1,680

* Includes \$5.4 million environmental provision including \$3.8 million in current provision for discontinued operations.

**Genesco Inc.
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Notes to Consolidated Financial Statements

Note 4
Inventories

In thousands	January 28, 2006	January 29, 2005
Raw materials	\$ 203	\$ 212
Wholesale finished goods	30,392	28,476
Retail merchandise	200,053	178,509
Total Inventories	\$ 230,648	\$ 207,197

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 Euro 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. At January 28, 2006 and January 29, 2005, the Company had approximately \$7.5 million and \$12.8 million, respectively, of such contracts outstanding. Forward exchange contracts have an average remaining term of approximately three months. The gain based on spot rates under these contracts at January 28, 2006 and January 29, 2005 was \$15,000 and \$0.1 million, respectively. For the year ended January 28, 2006, the Company recorded an unrealized loss on foreign currency forward contracts of \$1.7 million in accumulated other comprehensive loss, before taxes. The Company monitors the credit quality of the major national and regional financial institutions with which it enters into such contracts.

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

**Genesco Inc.
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Notes to Consolidated Financial Statements

Note 5
Derivative Instruments and Hedging Activities, Continued

The Company uses interest rate swaps as a cash flow hedge to manage interest costs and the risk associated with changing interest rates of long-term debt. During the first quarter ended May 1, 2004, the Company entered into three separate forward-starting interest rate swap agreements as a means of managing its interest rate exposure on its new \$100.0 million variable rate term loan. All three agreements were effective beginning on October 1, 2004 and are designed to swap a variable rate of three-month LIBOR (4.53% at January 3, 2006, the day the rate was set) for a fixed rate ranging from 2.52% to 3.32%. The aggregate notional amount of the swaps was \$65.0 million. Of the three agreements, the swap agreement with a \$15.0 million notional amount expired on October 1, 2005. The swap agreement with a \$20.0 million notional amount expires on July 1, 2006 but it was paid off early in January 2006. The swap agreement with an original \$30.0 million notional amount expires on April 1, 2007 and has a \$20.0 million notional amount as of January 28, 2006. These agreements have the effect of converting certain of the Company's variable rate obligations to fixed rate obligations. The Company received \$0.3 million as a result of early termination of the interest rate swap agreements.

In order to ensure continued hedge effectiveness, the Company intends to elect the three-month LIBOR option for its variable rate interest payments on its term loan as of each interest payment date. Since the interest payment dates coincide with the swap reset dates, the hedges are expected to be perfectly effective. However, because the swaps do not qualify for the short-cut method, the Company will evaluate quarterly the continued effectiveness of the hedge and will reflect any ineffectiveness in the results of operations. As long as the hedge continues to be perfectly effective, net amounts paid or received will be reflected as an adjustment to interest expense and the changes in the fair value of the derivative will be reflected in other comprehensive income.

At January 28, 2006, the net gain of these interest rate swap agreements was \$0.2 million, net of tax, representing the change in fair value of the derivative instruments.

**Genesco Inc.
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Notes to Consolidated Financial Statements

Note 6**Long-Term Debt**

<u>In thousands</u>	2006	2005
4 1/8% convertible subordinated debentures due June 2023	\$ 86,250	\$ 86,250
Term loan, matures April 1, 2009	20,000	75,000
Revolver borrowings	-0-	-0-
Total long-term debt	106,250	161,250
Current portion, term loan	-0-	-0-
Total Noncurrent Portion of Long-Term Debt	\$ 106,250	\$ 161,250

Long-term debt maturing during each of the next five years ending January is as follows: 2007 – \$-0-, 2008 — \$-0-; 2009 — \$12,500,000; 2010 — \$7,500,000; 2011 — \$-0-; and thereafter - \$86,250,000.

Credit Agreement:

On April 1, 2004, the Company entered into new credit facilities totaling \$175.0 million with a group of 10 banks, led by Bank of America, N.A. as Administrative Agent. The agreement, as amended April 10, 2006, governing the facilities expires April 1, 2009. The facilities consist of a \$100.0 million term loan (used to fund a portion of the purchase price for the Hat World acquisition) and a \$75.0 million revolving credit facility (which replaced the previous \$75.0 million revolving credit facility). The revolving credit facility is available for working capital and general corporate purposes, and also provides for the issuance of commercial and standby letters of credit. The Company borrowed the \$100.0 million term loan on April 1, 2004. In January 2005, the Company prepaid \$15.0 million of its \$100.0 million term loan that was due in Fiscal 2006. In connection with the prepayment, the Company wrote off less than \$0.1 million of deferred financing costs. During Fiscal 2006, the Company prepaid \$55.0 million of its \$100.0 million term loan that was due in Fiscal 2007, 2008 and 2009. In connection with the prepayment, the Company wrote off \$0.6 million of deferred financing costs. The Company received \$0.3 million as a result of early termination of the interest rate swap agreements. The net write-offs of deferred financing costs and swap agreement gains of \$0.3 million are included in selling and administrative expenses on the accompanying Statements of Earnings. The Company had no borrowings outstanding under the revolving credit facility at January 28, 2006. The Company had outstanding letters of credit of \$14.7 million under the facility at January 28, 2006. These letters of credit support product purchases and lease and insurance indemnifications.

Under both the term loan and revolving credit facilities, interest rates and facility fees are determined according to a pricing grid providing margins over LIBOR or an alternate base rate (the higher of the Federal Funds Rate plus 1/2% or the prime rate). The applicable fees and margins are determined by the Company's leverage (lease adjusted debt to earnings before interest, taxes, depreciation, amortization and rent ("EBITDAR")) ratio.

**Genesco Inc.
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Notes to Consolidated Financial Statements

Note 6
Long-Term Debt, Continued

Deferred financing costs incurred of \$3.4 million related to the \$175.0 million credit facilities were capitalized and are being amortized over the expected lives of the facilities. These costs are included in other non-current assets on the Consolidated Balance Sheets.

These credit facilities are guaranteed by each subsidiary of the Company whose assets exceed 5% of the consolidated assets of the Company and its subsidiaries or whose revenue or net income exceeds 10% of the consolidated net income of the Company and its subsidiaries. These credit facilities are secured by substantially all of the material assets of the Company and the guarantors.

The credit agreement requires the Company to maintain a consolidated tangible net worth in excess of a specified amount that is adjusted in accordance with the Company's consolidated net income. The credit agreement also requires the Company to meet specified ratio requirements with respect to leverage (lease adjusted debt to EBITDAR) and fixed charge coverage, and restricts the making of capital expenditures. The credit agreement also contains negative covenants restricting, among other things, indebtedness, liens, investments (including acquisitions), fundamental changes and restricted payments (including repurchasing the Company's common stock or declaring cash dividends in respect thereof). The Company was in compliance with the financial covenants contained in the credit agreement at January 28, 2006.

4 1/8% Convertible Subordinated Debentures due 2023:

On June 24, 2003 and June 26, 2003, the Company issued a total of \$86.3 million of 4 1/8% Convertible Subordinated Debentures due June 15, 2023. The Debentures are convertible at the option of the holders into shares of the Company's common stock, par value \$1.00 per share, if: (1) the price of its common stock issuable upon conversion of a Debenture reaches 120% or more of the initial conversion price (\$26.54 or more) for 10 of the last 30 trading days of the immediately preceding fiscal quarter, (2) specified corporate transactions occur or (3) the trading price for the Debentures falls below certain thresholds. As of January 31, 2006, the debentures became convertible into shares of common stock at the option of the holders. The Company's common stock closed at or above \$26.54 for at least 10 of the last 30 trading days of the fourth quarter of Fiscal 2005. Therefore, the contingency was satisfied. Upon conversion, the Company will have the right to deliver, in lieu of its common stock, cash or a combination of cash and shares of its common stock. Subject to the above conditions, each \$1,000 principal amount of Debentures is convertible into 45,2080 shares (equivalent to an initial conversion price of \$22.12 per share of common stock) subject to adjustment.

The Company will pay cash interest on the debentures at an annual rate of 4.125% of the principal amount at issuance, payable on June 15 and December 15 of each year, commencing on December 15, 2003. The Company will pay contingent interest (in the amounts set forth in the Debentures) to holders of the Debentures during any six-month period from and including an interest payment date to, but excluding, the next interest payment date, commencing with the six-month period ending December 15, 2008, if the average trading price of the Debentures for the five consecutive trading day measurement period immediately preceding the applicable six-month period equals 120% or more of the principal amount of the Debentures.

**Genesco Inc.
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Notes to Consolidated Financial Statements

Note 6
Long-Term Debt, Continued

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

Each holder of the Debentures may require the Company to purchase all or a portion of the holder's Debentures on June 15, 2010, 2013 or 2028, at a price equal to the principal amount of the Debentures to be purchased, plus accrued and unpaid interest, contingent interest and liquidated damages, if any, to the purchase date. Each holder may also require the Company to repurchase all or a portion of such holder's Debentures upon the occurrence of a change of control (as defined in the Debentures). The Company may choose to pay the change of control purchase price in cash or shares of its common stock or a combination of cash and shares.

In January 2004, the shelf registration statement filed by the Company for the resale by investors of the Debentures and their common stock issuable upon conversion of the Debentures was declared effective by the Securities and Exchange Commission.

The issuance and sale of the Debentures and the subsequent offering of the Debentures by the initial purchasers were exempt from the registration provisions of the Securities Act of 1933 pursuant to Section 4(2) of such Act and Rule 144A promulgated thereunder. Banc of America Securities LLC, Banc One Capital Markets, Inc., J.P. Morgan Securities Inc. and Wells Fargo Securities, LLC were the initial purchasers of the Debentures.

Deferred financing costs of \$2.9 million relating to the issuance were capitalized and are being amortized over seven years and are included in other non-current assets on the Balance Sheet.

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

Concurrent with the issuance of the 4 1/8% Convertible Subordinated Debentures, the Company redeemed \$103.2 million of 5 1/2% Convertible Subordinated Notes due 2005, resulting in a \$2.6 million loss on early retirement of debt (\$1.6 million redemption on premium and \$1.0 million write-off of unamortized deferred financing costs) included in the Consolidated Statement of Earnings for Fiscal 2004.

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Note 7
Commitments Under Long-Term Leases

Operating Leases

The Company leases its office space and all of its retail store locations and transportation equipment under various noncancelable operating leases. The leases have varying terms and expire at various dates through 2021. The store leases typically have initial terms of between 5 and 10 years. Generally, most of the leases require the Company to pay taxes, insurance, maintenance costs and contingent rentals based on sales. Approximately 7% of the Company's leases contain renewal options.

Rental expense under operating leases of continuing operations was:

In thousands	2006	2005	2004
Minimum rentals	\$ 110,028	\$ 94,561	\$ 69,095
Contingent rentals	4,668	3,741	3,021
Sublease rentals	(768)	(1,186)	(1,314)
Total Rental Expense	\$ 113,928	\$ 97,116	\$ 70,802

Minimum rental commitments payable in future years are:

Fiscal Years	In Thousands
2007	\$ 126,701
2008	124,390
2009	114,777
2010	104,190
2011	91,682
Later years	280,812
Total Minimum Rental Commitments	\$ 842,552

For leases that contain predetermined fixed escalations of the minimum rentals, the related rental expense is recognized on a straight-line basis and the cumulative expense recognized on the straight-line basis in excess of the cumulative payments is included in other accrued liabilities on the Consolidated Balance Sheets. The Company occasionally receives reimbursements from landlords to be used towards construction of the store the Company intends to lease. Leasehold improvements are recorded at their gross costs including items reimbursed by landlords. The reimbursements are amortized as a reduction of rent expense over the initial lease term. Tenant allowances of \$20.3 million and \$18.0 million for Fiscal 2006 and 2005, respectively, and deferred rent of \$19.5 million and \$15.8 million for Fiscal 2006 and 2005, respectively, are included in deferred rent and other long-term liabilities on the Consolidated Balance Sheets.

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Note 8
Shareholders' Equity
Non-Redeemable Preferred Stock

Class (In order of preference)*	Shares Authorized	Number of Shares			Amounts in Thousands			Common Convertible Ratio	No. of Votes	
		2006	2005	2004	2006	2005	2004			
Subordinated Serial Preferred (Cumulative)										
Aggregate	3,000,000**	—	—	—	—	—	—	N/A	N/A	
\$2.30 Series 1	64,368	36,295	36,620	36,920	\$ 1,452	\$ 1,465	\$ 1,477	.83	1	
\$4.75 Series 3	40,449	17,660	17,660	18,163	1,766	1,766	1,816	2.11	2	
\$4.75 Series 4	53,764	9,184	16,412	16,412	918	1,641	1,641	1.52	1	
Series 6	800,000	-0-	-0-	-0-	-0-	-0-	-0-		100	
\$1.50 Subordinated										
Cumulative Preferred	5,000,000	30,017	30,017	30,017	901	900	901		1	
		93,156	100,709	101,512	5,037	5,772	5,835			
Employees' Subordinated										
Convertible Preferred	5,000,000	61,403	63,031	64,326	1,842	1,891	1,930	1.00***	1	
Stated Value of Issued Shares					6,879	7,663	7,765			
Employees' Preferred Stock										
Purchase Accounts					(184)	(189)	(185)			
Total Non-Redeemable Preferred Stock					\$ 6,695	\$ 7,474	\$ 7,580			

* In order of preference for liquidation and dividends.

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

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

Preferred Stock Transactions

In thousands	Non-Redeemable Preferred Stock	Non-Redeemable Employees' Preferred Stock	Employees' Preferred Stock Purchase Accounts	Total Non-Redeemable Preferred Stock
Balance February 1, 2003	\$ 5,835	\$ 1,958	\$ (194)	\$ 7,599
Other	-0-	(28)	9	(19)
Balance January 31, 2004	5,835	1,930	(185)	7,580
Other	(63)	(39)	(4)	(106)
Balance January 29, 2005	5,772	1,891	(189)	7,474
Conversion of Series 4	(723)	-0-	-0-	(723)
Other	(12)	(49)	5	(56)
Balance January 28, 2006	\$ 5,037	\$ 1,842	\$ (184)	\$ 6,695

Subordinated Serial Preferred Stock (Cumulative):

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

**Genesco Inc.
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Notes to Consolidated Financial Statements

Note 8
Shareholders' Equity, Continued

The Company's shareholders' rights plan grants to common shareholders the right to purchase, at a specified exercise price, a fraction of a share of subordinated serial preferred stock, Series 6, in the event of an acquisition of, or an announced tender offer for, 15% or more of the Company's outstanding common stock. Upon any such event, each right also entitles the holder (other than the person making such acquisition or tender offer) to purchase, at the exercise price, shares of common stock having a market value of twice the exercise price. In the event the Company is acquired in a transaction in which the Company is not the surviving corporation, each right would entitle its holder to purchase, at the exercise price, shares of the acquiring company having a market value of twice the exercise price. The rights expire in August 2010, are redeemable under certain circumstances for \$.01 per right and are subject to exchange for one share of common stock or an equivalent amount of preferred stock at any time after the event which makes the rights exercisable and before a majority of the Company's common stock is acquired.

\$1.50 Subordinated Cumulative Preferred Stock:

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

Employees' Subordinated Convertible Preferred Stock:

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

Common Stock:

Common stock-\$1 par value. Authorized: 80,000,000 shares; issued: January 28, 2006 – 23,748,134 shares; January 29, 2005 — 22,925,857 shares. There were 488,464 shares held in treasury at January 28, 2006 and January 29, 2005. Each outstanding share is entitled to one vote. At January 28, 2006, common shares were reserved as follows: 142,741 shares for conversion of preferred stock; 1,880,509 shares for the 1996 Stock Incentive Plan; 1,000,000 shares for the 2005 Stock Incentive Plan; and 343,509 shares for the Genesco Employee Stock Purchase Plan.

For the year ended January 28, 2006, 547,350 shares of common stock were issued for the exercise of stock options at an average weighted market price of \$16.16, for a total of \$8.8 million; 228,594 shares of common stock were issued as restricted shares as part of the 2005 Equity Incentive Plan; 24,978 shares of common stock were issued for the purchase of shares under the Employee Stock Purchase Plan at an average weighted market price of \$20.34, for a total of \$0.5 million; 8,500 shares were issued to directors for no consideration; and 12,855 shares were issued in miscellaneous conversions of Series 1, Series 4 and Employees' Subordinated Convertible Preferred Stock. The 547,350 options exercised include 510,586 shares of fixed stock options and 36,764 shares of restricted stock (see Note 12).

**Genesco Inc.
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Notes to Consolidated Financial Statements

Note 8
Shareholders' Equity, Continued

For the year ended January 29, 2005, 667,461 shares of common stock were issued for the exercise of stock options at an average weighted market price of \$13.66, for a total of \$9.1 million; 24,529 shares of common stock were issued for the purchase of shares under the Employee Stock Purchase Plan at an average weighted market price of \$14.31, for a total of \$0.4 million; 19,601 shares were issued to directors for no consideration; and 2,605 shares were issued in miscellaneous conversions of Series 1, Series 3 and Employees' Subordinated Convertible Preferred Stock. The 667,461 options exercised include 647,461 shares of fixed stock options and 20,000 shares of restricted stock (see Note 12).

For the year ended January 31, 2004, 45,262 shares of common stock were issued for the exercise of stock options at an average weighted market price of \$14.79, for a total of \$0.7 million; 32,505 shares of common stock were issued for the purchase of shares under the Employee Stock Purchase Plan at an average weighted market price of \$11.05, for a total of \$0.4 million; 28,176 shares were issued to directors for no consideration; and 952 shares were issued in miscellaneous conversions of Series 1 and Employees' Subordinated Convertible Preferred Stock. The 45,262 options exercised include 17,000 shares of fixed stock options and 28,262 shares of restricted stock (see Note 12). In addition, the Company repurchased and retired 116,800 shares of common stock at an average weighted market price of \$16.27, for a total of \$1.9 million.

Restrictions on Dividends and Redemptions of Capital Stock:

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

The Company's revolving credit agreement restricts the payment of dividends and other payments with respect to capital stock, including repurchases (although the Company may make payments with respect to preferred stock). At January 28, 2006, \$24.8 million was available for such payments related to common stock.

The June 24 and June 26, 2003 indentures, under which the Company's 4 1/8% convertible subordinated debentures due 2023 were issued, does not restrict the payment of preferred stock dividends.

Dividends declared for Fiscal 2006 for the Company's Subordinated Serial Preferred Stock, \$2.30 Series 1, \$4.75 Series 3 and \$4.75 Series 4, and the Company's \$1.50 Subordinated Cumulative Preferred Stock were \$273,000 in the aggregate.

**Genesco Inc.
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Notes to Consolidated Financial Statements

Note 8
Shareholders' Equity, Continued

Changes in the Shares of the Company's Capital Stock

	Common Stock	Non- Redeemable Preferred Stock	Employees' Preferred Stock
Issued at February 1, 2003	22,221,566	101,524	65,269
Exercise of options	45,262	-0-	-0-
Issue shares — Employee Stock Purchase Plan	32,505	-0-	-0-
Stock repurchase	(116,800)	-0-	-0-
Other	29,128	(12)	(943)
Issued at January 31, 2004	22,211,661	101,512	64,326
Exercise of options	667,461	-0-	-0-
Issue shares — Employee Stock Purchase Plan	24,529	-0-	-0-
Other	22,206	(803)	(1,295)
Issued at January 29, 2005	22,925,857	100,709	63,031
Exercise of options	547,350	-0-	-0-
Issue restricted stock	228,594	-0-	-0-
Issue shares — Employee Stock Purchase Plan	24,978	-0-	-0-
Conversion of Series 4 preferred stock	10,985	(7,228)	-0-
Other	10,370	(325)	(1,628)
Issued at January 28, 2006	23,748,134	93,156	61,403
Less shares repurchased and held in treasury	488,464	-0-	-0-
Outstanding at January 28, 2006	23,259,670	93,156	61,403

**Genesco Inc.
and Subsidiaries**
Notes to Consolidated Financial Statements

Note 9
Income Taxes

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

In thousands	2006	2005	2004
Current			
U.S. federal	\$ 38,486	\$ 20,114	\$ 13,681
Foreign	231	432	357
State	6,192	2,035	1,416
Total Current Income Tax Expense	44,909	22,581	15,454
Deferred			
U.S. federal	(4,429)	4,442	(36)
Foreign	(57)	(20)	62
State	(579)	1,639	(145)
Total Deferred Income Tax (Benefit) Expense	(5,065)	6,061	(119)
Total Income Tax Expense	\$ 39,844	\$ 28,642	\$ 15,335

Discontinued operations were recorded net of income tax expense (benefit) of approximately \$38,000, (\$0.1) million and (\$0.5) million in Fiscal 2006, 2005 and 2004, respectively.

As a result of the exercise of non-qualified stock options by the Company's directors and employees during Fiscal 2006, 2005 and 2004, the Company realized a federal income tax benefit of approximately \$3.9 million, \$3.3 million and \$0.1 million, respectively. These tax benefits are accounted for as a decrease in current income taxes payable and an increase in additional paid-in capital.

In addition, during Fiscal 2006, the Company also realized a federal income tax benefit of \$0.7 million related to stock options exercised as a result of the Hat World acquisition. As discussed in Note 2, this benefit was accounted for as a decrease to current taxes payable and a reduction to goodwill.

Genesco Inc.
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Notes to Consolidated Financial Statements

Note 9
Income Taxes, Continued

Deferred tax assets and liabilities are comprised of the following:

In thousands	January 28, 2006	January 29, 2005
Identified intangibles	\$ (20,633)	\$ (21,538)
Convertible bonds	(4,020)	(2,303)
Tax over book depreciation	-0-	(1,314)
Total deferred tax liabilities	\$ (24,653)	\$ (25,155)
Deferred rent	10,085	8,614
Pensions	7,343	8,171
Expense accruals	4,016	2,698
Uniform capitalization costs	2,324	2,071
Book over tax depreciation	2,846	-0-
Provisions for discontinued operations and restructurings	644	952
Inventory valuation	525	1,251
Tax net operating loss and credit carryforwards	498	1,241
Allowances for bad debts and notes	145	185
Other	4,253	3,000
Deferred tax assets	32,679	28,183
Net Deferred Tax Assets	\$ 8,026	\$ 3,028

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

	2006	2005	2004
U. S. federal statutory rate of tax	35.00%	35.00%	35.00%
State taxes (net of federal tax benefit)	3.56	3.09	1.82
Previously accrued income taxes	.00	(.93)	(2.45)
Other	.32	(.01)	.20
Effective Tax Rate	38.88%	37.15%	34.57%

In Fiscal 2005, the Company received a favorable tax settlement of \$0.5 million and determined approximately \$0.2 million of previously accrued income taxes were no longer required. These amounts are reflected as an income tax benefit in Fiscal 2005.

In Fiscal 2004, the Company determined that approximately \$1.1 million of previously accrued income taxes were no longer required. This amount is reflected as an income tax benefit in Fiscal 2004.

As of January 29, 2005, the Company had a Federal net operating loss carryforward of \$1.9 million, as a result of an acquisition. Internal Revenue Code Section 382 imposes limitations due to ownership changes.

**Genesco Inc.
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Notes to Consolidated Financial Statements

Note 9
Income Taxes, Continued

As of January 28, 2006 and January 29, 2005, the Company had state net operating loss carryforwards of \$6.4 million and \$13.0 million, respectively, expiring in tax years 2010 through 2020.

As of January 28, 2006 and January 29, 2005, the Company had state tax credits of \$0.3 million and \$0.2 million, respectively. These credits expire in tax years 2006 through 2020.

As of January 28, 2006, the Company had foreign tax credits of \$0.2 million. These credits will expire in tax year 2016.

Note 10
Defined Benefit Pension Plans and Other Benefit Plans

Defined Benefit Pension Plans

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

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

Other Defined Benefit Plans

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

**Genesco Inc.
and Subsidiaries**
Notes to Consolidated Financial Statements

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

Assets and Obligations

The following table sets forth the change in benefit obligation for the respective fiscal year:

In thousands	Pension Benefits		Other Benefits	
	2006	2005	2006	2005
Benefit obligation at beginning of year	\$ 120,601	\$ 117,458	\$ 3,263	\$ 3,071
Service cost	250	2,164	205	133
Interest cost	6,639	6,871	197	174
Plan amendments	-0-	-0-	-0-	-0-
Plan participants' contributions	-0-	-0-	150	137
Benefits paid	(8,595)	(8,931)	(511)	(264)
Actuarial loss	3,048	4,681	623	12
Curtailement gain	-0-	(1,642)	-0-	-0-
Benefit obligation at end of year	\$ 121,943	\$ 120,601	\$ 3,927	\$ 3,263

The following table sets forth the change in plan assets for the respective fiscal year:

In thousands	Pension Benefits		Other Benefits	
	2006	2005	2006	2005
Fair value of plan assets at beginning of year	\$ 92,273	\$ 89,524	\$ -0-	\$ -0-
Actual gain on plan assets	8,043	8,421	-0-	-0-
Employer contributions	7,000	3,259	361	127
Plan participants' contributions	-0-	-0-	150	137
Benefits paid	(8,595)	(8,931)	(511)	(264)
Fair value of plan assets at end of year	\$ 98,721	\$ 92,273	\$ -0-	\$ -0-

**Genesco Inc.
and Subsidiaries**
Notes to Consolidated Financial Statements

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

Funded Status

The following table sets forth the funded status of the plans for the respective fiscal year:

In thousands	Pension Benefits		Other Benefits	
	2006	2005	2006	2005
Accumulated benefit obligation	\$ (121,943)	\$ (120,601)	\$ (3,927)	\$ (3,263)
Future pay increases	-0-	-0-	-0-	-0-
Projected benefit obligation	(121,943)	(120,601)	(3,927)	(3,263)
Assets	98,721	92,273	-0-	-0-
Under funded projected benefit obligation	(23,222)	(28,328)	(3,927)	(3,263)
Prior service cost	-0-	-0-	-0-	-0-
Cumulative net losses	42,719	44,514	1,603	1,062
Minimum pension liability	(42,719)	(44,514)	-0-	-0-
Accrued Benefit Liability	\$ (23,222)	\$ (28,328)	\$ (2,324)	\$ (2,201)

Components of Net Periodic Benefit Cost

In thousands	Pension Benefits			Other Benefits		
	2006	2005	2004	2006	2005	2004
Service cost	\$ 250	\$ 2,164	\$ 2,009	\$ 205	\$ 133	\$ 95
Interest cost	6,639	6,871	7,150	197	174	150
Expected return on plan assets	(7,702)	(7,492)	(7,781)	-0-	-0-	-0-
Amortization:						
Prior service cost	-0-	(70)	(140)	-0-	-0-	-0-
Losses	4,502	4,015	3,056	83	54	70
Net amortization	4,502	3,945	2,916	83	54	70
Curtailement gain	-0-	(605)	-0-	-0-	-0-	-0-
Net Periodic Benefit Cost	\$ 3,689	\$ 4,883	\$ 4,294	\$ 485	\$ 361	\$ 315

Curtailement

The Company's board of directors approved freezing the Company's defined pension benefit plan in the second quarter ended July 31, 2004, effective January 1, 2005. The action resulted in a curtailement gain of \$0.6 million in the second quarter of Fiscal 2005 which is reflected in the restructuring and other, net line on the accompanying Statements of Earnings.

**Genesco Inc.
and Subsidiaries**
Notes to Consolidated Financial Statements

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

Additional Information

In thousands	Pension Benefits		Other Benefits	
	2006	2005	2006	2005
Increase (decrease) in minimum pension liability included in other comprehensive income	(1,795)	1,087	NA	NA

Weighted-average assumptions used to determine benefit obligations

	Pension Benefits		Other Benefits	
	2006	2005	2006	2005
Discount rate	5.50%	5.75%	5.50%	5.75%
Rate of compensation increase	NA	4.50%*	—	—
Measurement date	12-31-2005	12-31-2004	1-28-2006	1-29-2005

Weighted-average assumptions used to determine net periodic benefit costs

	Pension Benefits			Other Benefits		
	2006	2005	2004	2006	2005	2004
Discount rate	5.50%	5.75%	6.125%	5.50%	5.75%	6.10%
Expected long-term rate of return on plan assets	8.25%	8.25%	8.25%	—	—	—
Rate of compensation increase	NA	4.50%*	4.50%	—	—	—

*The defined benefit pension plan was frozen effective January 1, 2005.

The weighted average discount rate used to measure the benefit obligation for the pension plan decreased from 5.75% to 5.50% from Fiscal 2005 to Fiscal 2006. The decrease in the rate increased the accumulated benefit obligation by \$3.2 million and increased the projected benefit obligation by \$3.2 million. The weighted average discount rate used to measure the benefit obligation for the pension plan decreased from 6.125% to 5.75% from Fiscal 2004 to Fiscal 2005. The decrease in the rate increased the accumulated benefit obligation by \$4.7 million and increased the projected benefit obligation by \$4.7 million.

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

**Genesco Inc.
and Subsidiaries**
Notes to Consolidated Financial Statements

Note 10**Defined Benefit Pension Plans and Other Benefit Plans, Continued***Assumed health care cost trend rates at December 31*

	<u>2006</u>	<u>2005</u>
Health care cost trend rate assumed for next year	9%	11%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5%	5%
Year that the rate reaches the ultimate trend rate	2010	2011

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

(In thousands)	1% Increase in Rates	1% Decrease in Rates
Aggregated service and interest cost	\$ 76	\$ 47
Accumulated postretirement benefit obligation	\$ 394	\$ 332

Plan Assets

The Company's pension plan weighted average asset allocations as of December 31, 2005, and 2004, by asset category are as follows:

Asset Category	Plan Assets at December 31	
	<u>2005</u>	<u>2004</u>
Equity securities	68%	64%
Debt securities	29%	31%
Other	3%	5%
Total	100%	100%

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

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

**Genesco Inc.
and Subsidiaries**
Notes to Consolidated Financial Statements

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

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

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

At January 28, 2006 and January 29, 2005, there were no Company related assets in the plan.

Cash Flows**Contributions**

There was no ERISA cash requirement for the plan in 2005 and none is projected to be required in 2006. However, the Company's current cash policy is to fund the cost of benefits accruing each year (the "normal cost") plus an amortization of the unfunded accrued liability. The Company made a \$4.0 million contribution in March 2006.

Estimated Future Benefit Payments

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

Estimated future payments	Pension Benefits (\$ in millions)	Other benefits (\$ in millions)
2006	\$ 10.0	\$ 0.3
2007	9.5	0.3
2008	9.4	0.3
2009	9.3	0.3
2010	8.9	0.3
2011 — 2015	42.6	1.3

**Genesco Inc.
and Subsidiaries**
Notes to Consolidated Financial Statements

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

Section 401(k) Savings Plan

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

Concurrent with the January 1, 1996 amendment to the pension plan (discussed previously), the Company amended the 401(k) savings plan to make matching contributions equal to 50% of each employee's contribution of up to 5% of salary. Concurrent with freezing the defined benefit pension plan effective January 1, 2005, the Company amended the 401(k) savings plan. Beginning January 1, 2005, the Company will match 100% of each employee's contribution of up to 3% of salary and 50% of the next 2% of salary. In addition, for those employees hired before December 31, 2005, who were eligible for the Company's cash balance retirement plan before it was frozen, the Company will add an additional contribution of 2 1/2 % of salary to each employee's account. Beginning in calendar 2002, participants are vested in the matching contribution of their accounts on a graduated basis of 25% a year beginning after two years of service. Full vesting occurs after five years of service. Company funds contributed prior to 2002 are not vested until a participant has completed five years of service. The contribution expense to the Company for the matching program was approximately \$3.6 million for Fiscal 2006, \$1.4 million for Fiscal 2005 and \$0.7 million for Fiscal 2004.

**Genesco Inc.
and Subsidiaries**
Notes to Consolidated Financial Statements

Note 11
Earnings Per Share

(In thousands, except per share amounts)	For the Year Ended January 28, 2006			For the Year Ended January 29, 2005			For the Year Ended January 31, 2004		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Earnings from continuing operations	\$62,626			\$48,460			\$29,025		
Less: Preferred stock dividends	(273)			(292)			(294)		

Basic EPS

Income available to common shareholders	62,353	22,804	<u>\$2.73</u>	48,168	22,008	<u>\$2.19</u>	28,731	21,742	<u>\$1.32</u>
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Effect of Dilutive Securities

Options		463			406			235	
Convertible preferred stock(1) 4 1/8% Convertible	84	37		-0-	-0-		-0-	-0-	
Subordinated Debentures(2)	2,467	3,899		2,467	3,899		1,500	2,357	
Employees' preferred stock(3)		62			64			65	

Diluted EPS

Income available to common shareholders plus assumed conversions	\$64,904	27,265	<u>\$2.38</u>	\$50,635	26,377	<u>\$1.92</u>	\$30,231	24,399	<u>\$1.24</u>
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- (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 Series 1 and 4 for all periods presented and Series 3 for Fiscal 2005 and 2004. Therefore, conversion of Series 1 and 4 convertible preferred stock is not reflected in diluted earnings per share for all periods presented and Series 3 in Fiscal 2004 and 2005, because it would have been antidilutive. The amount of the dividend on Series 3 convertible preferred stock per common share obtainable on conversion of the convertible preferred stock was less than basic earnings per share for Fiscal 2006. Therefore, conversion of Series 3 preferred shares were included in diluted earnings per share. The shares convertible to common stock for Series 1, 3 and 4 preferred stock would have been 30,125, 37,263 and 13,960, respectively, as of January 28, 2006.
- (2) These debentures are included in diluted earnings per share effective for periods ending after December 15, 2004. The EITF issued Consensus No. 04-8, "The Effect of Contingently Convertible Debt on Diluted Earnings per Share" in November 2004. The Consensus requires companies to include the convertible debt in diluted earnings per share regardless of whether the market price trigger has been met and prior periods should be restated. Fiscal 2004 has been restated to include these shares.
- (3) The Company's Employees' Subordinated Convertible Preferred Stock is convertible one for one to the Company's common stock. Because there are no dividends paid on this stock, these shares are assumed to be converted.

**Genesco Inc.
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Notes to Consolidated Financial Statements

Note 11

Earnings Per Share, Continued

Options to purchase 2,378 shares of common stock at \$40.05 per share were outstanding at the end of Fiscal 2006 but were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares.

Options to purchase 32,000 shares of common stock at \$32.65 per share were outstanding at the end of Fiscal 2005 but were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares.

Options to purchase 132,225 shares of common stock at \$16.63 per share, 45,250 shares of common stock at \$17.75 per share, 32,000 shares of common stock at \$32.65 per share, 341,960 shares of common stock at \$17.00 per share, 32,000 shares of common stock at \$23.97 per share, 384,000 shares of common stock at \$16.76 per share and 426,500 shares of common stock at \$17.50 per share were outstanding at the end of Fiscal 2004 but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares.

The weighted shares outstanding reflects the effect of the stock buy back programs of up to 7.5 million shares announced by the Company in Fiscal 1999 — 2003. The Company had repurchased 7.1 million shares as of January 31, 2004. There were 398,300 shares remaining to be repurchased under these authorizations as of January 29, 2005. The board subsequently reduced the repurchase authorization to 100,000 shares in view of the Hat World acquisition. The Company did not repurchase any shares during Fiscal 2005 or Fiscal 2006.

**Genesco Inc.
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Notes to Consolidated Financial Statements

Note 12

Stock Incentive Plans and Stock Purchase Plans

The Company's stock-based compensation plans, as of January 28, 2006, are described below. The Company applies APB Opinion 25 and related Interpretations in accounting for its plans. Accordingly, no compensation cost has been recognized other than for its restricted stock incentive plans (see Note 1).

Fixed Stock Incentive Plans

The Company has two fixed stock incentive plans. Under the new 2005 Equity Incentive Plan, effective as of June 23, 2005, the Company may grant options, restricted shares and other stock-based awards to its management personnel as well as directors for up to 1.0 million shares of common stock. Under the 1996 Stock Incentive Plan, the Company may grant options to its officers and other key employees of and consultants to the Company as well as directors for up to 4.4 million shares of common stock. There will be no future awards under the 1996 Stock Incentive Plan. Under both plans, the exercise price of each option equals the market price of the Company's stock on the date of grant and an option's maximum term is 10 years. Options granted under both plans vest 25% at the end of each year.

The 1996 Stock Incentive Plan provided for an automatic grant of restricted stock to non-employee directors on the date of the annual meeting of shareholders at which an outside director is first elected. The outside director restricted stock so granted was to vest with respect to one-third of the shares each year as long as the director is still serving as a director. Once the shares have vested, the director is restricted from selling, transferring, pledging or assigning the shares for an additional two years. The 2005 Equity Incentive Plan includes no automatic grant provisions, but permits the board of directors to make awards to non-employee directors. The board granted restricted stock to two new non-employee directors on terms identical to the automatic awards under the 1996 Plan, except that transfer restrictions are to lapse after three years. There were 1,370 and 1,198 shares of restricted stock issued to directors for Fiscal 2006 and Fiscal 2005, respectively. There were no shares issued in Fiscal 2004. In addition, under the 1996 Plan an outside director could elect irrevocably to receive all or a specified portion of his annual retainers for board membership and any committee chairmanship for the following fiscal year in a number of shares of restricted stock (the "Retainer Stock"). Shares of the Retainer Stock were granted as of the first business day of the fiscal year as to which the election is effective, subject to forfeiture to the extent not earned upon the outside director's ceasing to serve as a director or committee chairman during such fiscal year. Once the shares were earned, the director was restricted from selling, transferring, pledging or assigning the shares for an additional four years. There were 2,465 shares, 5,345 shares and 6,025 shares of Retainer Stock issued to directors for Fiscal 2006, 2005 and 2004, respectively.

Also pursuant to the 1996 Stock Incentive Plan, annually on the date of the annual meeting of shareholders, beginning in Fiscal 2004, each outside director received restricted stock valued at \$44,000 based on the average of stock prices for the first five days in the month of the annual meeting of shareholders. The outside director restricted stock was to vest with respect to one-third of the shares each year as long as the director is still serving as a director. Once the shares vested, the director was restricted from selling, transferring, pledging or assigning the shares for an additional two years. There were 8,855, 15,822 and 22,160 shares of restricted stock issued to directors for Fiscal 2006, 2005 and 2004, respectively.

**Genesco Inc.
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Notes to Consolidated Financial Statements

Note 12

Stock Incentive Plans and Stock Purchase Plans, Continued

The weighted-average fair value of each option granted in the fixed stock incentive plans described above is estimated on the date of grant using the Black-Scholes option-pricing model. The average assumptions used for grants in Fiscal 2006, 2005 and 2004, respectively were expected volatility of 42, 60 and 61 percent each year; risk-free interest rates of 4.4, 4.3 and 4.3 percent; and expected lives of 5.2, 6.0 and 6.0 years, respectively.

A summary of the status of the Company's fixed stock incentive plans as of January 28, 2006, January 29, 2005, and January 31, 2004 and changes during the years ended on those dates is presented below:

Fixed Options	2006		2005		2004	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	1,894,099	\$ 18.70	1,994,060	\$ 15.26	1,649,060	\$ 14.71
Granted	80,973	36.51	555,500	24.66	426,500	17.50
Exercised	(510,586)	15.36	(647,461)	13.12	(17,000)	11.74
Forfeited	-0-	—	(8,000)	28.31	(64,500)	16.73
Outstanding at end of year	<u>1,464,486</u>	<u>\$ 20.84</u>	<u>1,894,099</u>	<u>\$ 18.70</u>	<u>1,994,060</u>	<u>\$ 15.26</u>
Options exercisable at year-end	657,638		740,474		1,051,310	
Weighted-average fair value of options granted during the year	\$ 15.94		\$ 14.63		\$ 10.57	

The following table summarizes information about fixed stock options outstanding at January 28, 2006:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at 1/28/06	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 1/28/06	Weighted-Average Exercise Price
\$ 6.06 - 6.06	3,000	2.5 years	\$ 6.06	3,000	\$ 6.06
9.625 - 12.75	52,035	1.4	10.75	52,035	10.75
13.19 - 17.75	769,228	6.8	17.01	459,978	16.84
23.54 - 32.65	559,250	8.5	24.86	142,625	25.47
36.40 - 40.05	80,973	9.8	36.51	-0-	—
\$ 6.06 - 40.05	<u>1,464,486</u>	<u>7.4</u>	<u>\$ 20.84</u>	<u>657,638</u>	<u>\$ 18.18</u>

Restricted Stock Incentive Plans

On October 16, 2000, a three year long term incentive plan was approved for the Chairman and CEO (at that time) which covered Fiscal 2002 through Fiscal 2004. The incentive plan provided a target payout of \$470,000 in stock. The number of shares to be issued was based on the closing price of the stock on October 16, 2000 or \$16.63 per share which totaled 28,262 shares. These shares would vest 100% at the end of three years as long as the Chairman and CEO has either remained an employee or director, or (if he has retired) has not violated the terms of a non-compete provision. Compensation cost charged against income for these shares was \$117,000 in Fiscal 2004. The 28,262 shares were issued in January 2004.

**Genesco Inc.
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Notes to Consolidated Financial Statements

Note 12

Stock Incentive Plans and Stock Purchase Plans, Continued

On June 1, 2001, the Company entered into a three year restricted stock agreement with a senior vice president of the Company. The number of shares to be issued was 20,000 shares and those shares were issued in June 2004. Compensation cost charged against income for these shares was \$69,000 and \$208,000 in Fiscal 2005 and 2004, respectively.

On April 24, 2002, the Company issued 36,764 shares of restricted stock to the President and CEO of the Company under the 1996 Stock Incentive Plan. Pursuant to the terms of the grant, these shares vested on April 23, 2005, provided that on such date the grantee remained continuously employed by the Company since the date of the agreement. Compensation cost charged against income for these shares was \$83,000, \$333,000 and \$333,000 in Fiscal 2006, 2005 and 2004, respectively. The 36,764 shares were issued in April 2005.

Under the 2005 Equity Incentive Plan, the Company issued 228,594 shares of restricted stock in October and December 2005. Of the 228,594 restricted shares issued, 106,445 shares vest at the end of three years and 122,149 shares vest 25% per year over four years, provided that on such date the grantee has remained continuously employed by the Company since the date of grant. The fair value of this stock is charged against income as compensation cost over the vesting period. Compensation cost charged against income for these shares was \$629,000 in Fiscal 2006.

Employee Stock Purchase Plan

Under the Employee Stock Purchase Plan, the Company is authorized to issue up to 1.0 million shares of common stock to qualifying full-time employees whose total annual base salary is less than \$90,000, effective October 1, 2002. Prior to October 1, 2002, the total annual base salary was limited to \$100,000. Under the terms of the Plan, employees can choose each year to have up to 15 percent of their annual base earnings or \$8,500, whichever is lower, withheld to purchase the Company's common stock. The purchase price of the stock is 85 percent of the closing market price of the stock on either the exercise date or the grant date, whichever is less. Under the Plan, the Company sold 24,978 shares, 24,529 shares and 32,505 shares to employees in Fiscal 2006, 2005 and 2004, respectively. Compensation cost is recognized for the fair value of the employees' purchase rights, which was estimated using the Black-Scholes model with the following assumptions for Fiscal 2006, 2005 and 2004, respectively: an expected life of 1 year for all years; expected volatility of 40, 40 and 45 percent; and risk-free interest rates of 4.3, 2.2 and 1.3 percent. The weighted-average fair value of those purchase rights granted in Fiscal 2006, 2005 and 2004 was \$7.69, \$5.31 and \$5.54, respectively. The Company's board of directors amended the Company's Employee Stock Purchase Plan to provide that participants may acquire shares under the Plan at a 5% discount from fair market value on the last day of the Plan year. Under SFAS No. 123(R), shares issued under the Plan as amended will be non-compensatory.

Stock Purchase Plans

Stock purchase accounts arising out of sales to employees prior to 1972 under certain employee stock purchase plans amounted to \$184,000 and \$189,000 at January 28, 2006 and January 29, 2005, respectively, and were secured at January 28, 2006, by 9,485 employees' preferred shares. Payments on stock purchase accounts under the stock purchase plans have been indefinitely deferred. No further sales under these plans are contemplated.

**Genesco Inc.
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Notes to Consolidated Financial Statements

Note 13

Legal Proceedings

Environmental Matters

New York State Environmental Matters

In August 1997, the New York State Department of Environmental Conservation (the "Department") 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 estimates that the cost of conducting the RIFS and implementing the IRM will be in the range of \$6.6 million to \$6.8 million, net of insurance recoveries, \$3.4 million of which the Company has already paid. In the course of preparing the RIFS, the Company has 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 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.

**Genesco Inc.
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Notes to Consolidated Financial Statements

Note 13

Legal Proceedings, Continued

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. The Company estimates that the costs of resolving environmental contingencies related to the Whitehall property range from \$0.8 million to \$5.1 million, and considers the cost of implementing the Plan to be the most likely cost within that range. While management believes that the Plan should be sufficient to satisfy applicable regulatory standards with respect to the site, 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.

In December 2005, the U.S. Environmental Protection Agency ("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. Additionally, the Company presently cannot estimate its liability, if any, with respect to the second site associated with the glue manufacturer's waste disposal.

Related to all outstanding environmental contingencies, the Company had accrued \$5.4 million as of January 28, 2006, \$5.5 million as of January 29, 2005 and \$2.7 million as of January 31, 2004. All such provisions reflect the Company's estimates of the most likely cost (undiscounted, including both current and noncurrent portions) of resolving the contingencies, based on facts and circumstances as of the time they were made. There is no assurance that relevant facts and circumstances will not change, necessitating future changes to the provisions. Such contingent liabilities are included in the liability arising from provision for discontinued operations on the accompanying Consolidated Balance Sheets.

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Notes to Consolidated Financial Statements

Note 13

Legal Proceedings, Continued

Insurance Matter

In May 2003, the Company filed a declaratory judgment action in the U.S. District Court for the Middle District of Tennessee against former general liability insurance carriers that underwrote policies covering the Company during periods relevant to the New York State knitting mill matter described above and the matters described above under the caption "Whitehall Environmental Matters." The action sought a determination that the carriers' defense and indemnity obligations under the policies extend to the sites. During the third quarter of Fiscal 2005, the Company and the carriers reached definitive settlement agreements and the Company received cash payments from the carriers totaling approximately \$3.0 million in exchange for releases from liability with respect to the two sites. Net of the insurance proceeds, additional pretax provisions totaling approximately \$1.0 million for future remediation expenses associated with the New York State knitting mill matter described above and the Whitehall matter described above, are reflected in the loss from discontinued operations for Fiscal 2005.

Other Matters

Patent Action

In January 2003, the Company was named a defendant in an action filed in the United States District Court for the Eastern District of Pennsylvania, *Schoenhaus, et al. vs. Genesco Inc., et al.*, alleging that certain features of shoes in the Company's Johnston & Murphy line infringe the plaintiff's patent, misappropriate trade secrets and involve conversion of the plaintiff's proprietary information and unjust enrichment of the Company. On January 10, 2005, the court granted summary judgment to the Company on the patent claims, finding that the accused products do not infringe the plaintiff's patent. The plaintiffs appealed the summary judgment to the U.S. Court of Appeals for the Federal Circuit, pending which the trial court stayed the remainder of the case. On March 15, 2006, the Court of Appeals affirmed the summary judgment in the Company's favor.

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Notes to Consolidated Financial Statements

Note 13

Legal Proceedings, Continued

California Employment Matters

On October 22, 2004, the Company was named a defendant in a putative class action filed in the Superior Court of the State of California, Los Angeles, *Schreiner vs. Genesco Inc., et al.*, alleging violations of California wages and hours laws, and seeking damages of \$40 million plus punitive damages. On May 4, 2005, the Company and the plaintiffs reached an agreement in principle to settle the action, subject to court approval and other conditions. In connection with the proposed settlement, to provide for the settlement payment to the plaintiff class and related expenses, the Company recognized a charge of \$2.6 million before taxes included in restructuring and other, net in the Consolidated Statements of Earnings for the first three months of Fiscal 2006. On May 25, 2005, a second putative class action, *Drake vs. Genesco Inc., et al.*, making allegations similar to those in the Schreiner complaint on behalf of employees of the Company's Johnston & Murphy division, was filed by a different plaintiff in the California Superior Court, Los Angeles. On November 22, 2005, the *Schreiner* court granted final approval of the settlement and the Company and the *Drake* plaintiff reached an agreement on November 17, 2005 to settle that action. The two matters were resolved more favorably to the Company than originally expected, as not all members of the plaintiff class in *Schreiner* submitted claims and because the court required that plaintiff's counsel bear the administrative expenses of the settlement. Consequently, the Company recognized income of \$0.9 million before tax, reflected in restructuring and other, net, in the Consolidated Statements of Earnings for the third quarter of Fiscal 2006.

On November 4, 2005, a former employee gave notice to the California Labor Work Force Development Agency ("LWDA") of a claim against Genesco 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. LWDA is investigating the claim. The Company is assessing the matter and currently has no estimate of its potential liability, if any, in connection with it.

**Genesco Inc.
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Notes to Consolidated Financial Statements

Note 14

Business Segment Information

The Company currently operates five reportable business segments (not including corporate): Journeys, comprised of the Journeys and Journeys Kidz retail footwear operations; Underground Station Group, comprised of the Underground Station and Jarman retail footwear operations; Hat World, comprised of the Hat World, Lids, Hat Zone, Cap Connection and Head Quarters retail headwear operations; Johnston & Murphy, comprised of Johnston & Murphy retail operations and wholesale distribution; and Licensed Brands, comprised of wholesale distribution of footwear manufactured under the Dockers® and Perry Ellis® brands under licenses from Levi Strauss & Company and PEI, Inc. All the Company's segments sell footwear or headwear products to either retail or wholesale markets/customers.

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, Underground Station Group and Hat World sell primarily branded products from other companies while Johnston & Murphy 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, interest expense, interest income, restructuring charges, loss on early retirement of debt and other, including severance and litigation.

Fiscal 2006		Underground Station Group		Johnston & Murphy		Licensed Brands		Corporate & Other		Consolidated
In thousands	Journeys		Hat World							
Sales	\$ 593,516	\$164,054	\$ 297,271	\$ 170,015	\$ 59,194	\$ 290	\$ 1,284,340			
Intercompany sales	-0-	-0-	-0-	-0-	(464)	-0-	(464)			
Net sales to external customers	\$ 593,516	\$164,054	\$ 297,271	\$ 170,015	\$ 58,730	\$ 290	\$ 1,283,876			
Segment operating income (loss)	\$ 73,346	\$ 10,890	\$ 40,133	\$ 10,396	\$ 4,167	\$ (23,852)	\$ 115,080			
Restructuring and other	-0-	-0-	-0-	-0-	-0-	(2,253)	(2,253)			
Earnings (loss) from operations	73,346	10,890	40,133	10,396	4,167	(26,105)	112,827			
Interest expense	-0-	-0-	-0-	-0-	-0-	(11,482)	(11,482)			
Interest income	-0-	-0-	-0-	-0-	-0-	1,125	1,125			
Earnings (loss) before income taxes from continuing operations	\$ 73,346	\$ 10,890	\$ 40,133	\$ 10,396	\$ 4,167	\$ (36,462)	\$ 102,470			
Total assets	\$ 166,890	\$ 57,180	\$ 244,186	\$ 60,978	\$ 23,207	\$ 133,677	\$ 686,118			
Depreciation	13,213	4,057	9,173	2,833	47	5,299	34,622			
Capital expenditures	24,292	6,913	21,126	2,443	132	2,040	56,946			

**Genesco Inc.
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Notes to Consolidated Financial Statements

Note 14
Business Segment Information, Continued

Fiscal 2005							
In thousands	Journeys	Underground Station Group	Hat World	Johnston & Murphy	Licensed Brands	Corporate & Other	Consolidated
Sales	\$ 521,942	\$148,039	\$ 216,270	\$ 162,599	\$ 63,985	\$ 323	\$ 1,113,158
Intercompany sales	-0-	-0-	-0-	-0-	(477)	-0-	(477)
Net sales to external customers	\$ 521,942	\$148,039	\$ 216,270	\$ 162,599	\$ 63,508	\$ 323	\$ 1,112,681
Segment operating income (loss)	\$ 60,065	\$ 6,963	\$ 30,522	\$ 9,230	\$ 6,075	\$ (23,570)	\$ 89,285
Restructuring and other	-0-	-0-	-0-	-0-	-0-	(1,221)	(1,221)
Earnings (loss) from operations	60,065	6,963	30,522	9,230	6,075	(24,791)	88,064
Interest expense	-0-	-0-	-0-	-0-	-0-	(11,373)	(11,373)
Interest income	-0-	-0-	-0-	-0-	-0-	411	411
Earnings (loss) before income taxes from continuing operations	\$ 60,065	\$ 6,963	\$ 30,522	\$ 9,230	\$ 6,075	\$ (35,753)	\$ 77,102
Total assets	\$ 152,292	\$ 54,216	\$ 219,795	\$ 62,043	\$ 18,469	\$ 128,756	\$ 635,571
Depreciation	12,409	3,727	6,599	2,793	112	5,626	31,266
Capital expenditures	10,858	6,051	12,898	3,154	35	6,484	39,480
Fiscal 2004							
In thousands	Journeys	Underground Station Group	Hat World	Johnston & Murphy	Licensed Brands	Corporate & Other	Consolidated
Sales	\$ 468,919	\$147,812	\$ 160,095	\$ 61,339	\$ 279	\$ 838,444	
Intercompany sales	-0-	-0-	-0-	(1,065)	-0-	(1,065)	
Net sales to external customers	\$ 468,919	\$147,812	\$ 160,095	\$ 60,274	\$ 279	\$ 837,379	
Segment operating income (loss)	\$ 54,710	\$ 8,178	\$ 4,089	\$ 4,548	\$ (15,441)	\$ 56,084	
Restructuring charge	-0-	-0-	-0-	-0-	(1,854)	(1,854)	
Earnings (loss) from operations	54,710	8,178	4,089	4,548	(17,295)	54,230	
Interest expense	-0-	-0-	-0-	-0-	(7,902)	(7,902)	
Interest income	-0-	-0-	-0-	-0-	613	613	
Loss on early retirement of debt	-0-	-0-	-0-	-0-	(2,581)	(2,581)	
Earnings (loss) before income taxes from continuing operations	\$ 54,710	\$ 8,178	\$ 4,089	\$ 4,548	\$ (27,165)	\$ 44,360	
Total assets	\$ 152,973	\$ 49,979	\$ 63,750	\$ 16,853	\$ 164,758	\$ 448,313	
Depreciation	11,966	3,842	2,892	130	5,777	24,607	
Capital expenditures	12,712	5,362	1,665	14	2,787	22,540	

**Genesco Inc.
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Note 15
Quarterly Financial Information (Unaudited)

(In thousands, except per share amounts)	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter		Fiscal Year	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Net sales	\$ 286,085	\$ 225,526	\$ 275,168	\$ 245,939	\$ 316,336	\$ 288,398	\$ 406,287	\$ 352,818	\$ 1,283,876	\$ 1,112,681
Gross margin	146,553	110,678	138,958	121,889	161,511	143,368	205,385	175,149	652,407	551,084
Pretax earnings	13,726 ⁽¹⁾	9,390 ⁽³⁾	11,265 ⁽⁴⁾	7,142 ⁽⁵⁾	26,406 ⁽⁷⁾	20,074 ⁽⁹⁾	51,073	40,496 ⁽¹²⁾	102,470	77,102
Earnings from continuing operations	8,426	5,806	6,766	4,825	16,238	12,383	31,196	25,446	62,626	48,460
Net earnings	8,491 ⁽²⁾	5,806	6,766	4,804 ⁽⁶⁾	16,143 ⁽⁸⁾	11,943 ⁽¹⁰⁾	31,286 ⁽¹¹⁾	25,696 ⁽¹³⁾	62,686	48,249
Diluted earnings per common share:										
Continuing operations	.33	.24	.27	.20	.62	.49	1.15	.97	2.38	1.92
Net earnings	.34	.24	.27	.20	.61	.47	1.15	.98	2.38	1.91

- (1) Includes a net restructuring and other charge of \$2.9 million (see Note 3).
- (2) Includes a gain of \$0.1 million, net of tax, from discontinued operations (see Note 3).
- (3) Includes a net restructuring and other charge of \$0.1 million (see Note 3).
- (4) Includes a net restructuring and other charge of \$0.2 million (see Note 3).
- (5) Includes a net restructuring and other credit of \$0.2 million (see Note 3).
- (6) Includes a loss of \$21,000, net of tax, from discontinued operations (see Note 3).
- (7) Includes a net restructuring and other credit of \$0.8 million (see Note 3).
- (8) Includes a loss of \$0.1 million, net of tax, from discontinued operations (see Note 3).
- (9) Includes a net restructuring and other charge of \$0.7 million (see Note 3).
- (10) Includes a loss of \$0.4 million, net of tax, from discontinued operations (see Note 3).
- (11) Includes a gain of \$0.1 million, net of tax, from discontinued operations (see Note 3).
- (12) Includes a net restructuring and other charge of \$0.6 million (see Note 3).
- (13) Includes a gain of \$0.3 million, net of tax, from discontinued operations (see Note 3).

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

None.

ITEM 9A, 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 January 28, 2006, 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) Management's annual report on internal control over financial reporting. Management's assessment of the effectiveness of the Company's internal control over financial reporting as of January 28, 2006 and the attestation report of Ernst & Young LLP on management's assessment of the Company's internal control over financial reporting are contained on pages 45-46, respectively, of this report.
- (c) Changes in internal control over financial reporting. There were no changes in the Company's internal control over financial reporting that occurred during the Company's last fiscal quarter that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

ITEM 9B, OTHER INFORMATION

Not applicable.

PART III

ITEM 10, DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Certain information required by this item is incorporated herein by reference to the sections entitled "Election of Directors," "Corporate Governance" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's definitive proxy statement for its annual meeting of shareholders to be held June 28, 2006 to be filed with the Securities and Exchange Commission. Pursuant to General Instruction G(3), certain information concerning the executive officers of the Company appears under the caption "Executive Officers of the Registrant" in this report following Item 4 of Part I.

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

ITEM 11, EXECUTIVE COMPENSATION

The information required by this item is incorporated herein by reference to the sections entitled “Election of Directors — Director Compensation” and “Executive Compensation” in the Company’s definitive proxy statement for its annual meeting of shareholders to be held June 28, 2006 to be filed with the Securities and Exchange Commission.

ITEM 12, SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Certain information required by this item is incorporated herein by reference to the section entitled "Security Ownership of Officers, Directors and Principal Shareholders" in the Company's definitive proxy statement for its annual meeting of shareholders to be held June 28, 2006 to be filed with the Securities and Exchange Commission.

The following table provides certain information as of January 28, 2006 with respect to our equity compensation plans:

EQUITY COMPENSATION PLAN INFORMATION*

	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))(1)
Equity compensation plans approved by security holders	1,693,080	\$ 20.84	1,530,938
Equity compensation plans not approved by security holders	—	—	—
Total	1,693,080	\$ 20.84	1,530,938

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

* For additional information concerning our equity compensation plans, see the discussion in Note 1 in the Notes to Consolidated Financial Statements — Summary of Significant Accounting Policies — Stock Incentive Plans and Note 12 — Stock Incentive Plans and Stock Purchase Plans.

ITEM 13, CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is incorporated herein by reference to the section entitled "Certain Relationships and Related Transactions" in the Company's definitive proxy statement for its annual meeting of shareholders to be held June 28, 2006 to be filed with the Securities and Exchange Commission.

ITEM 14, PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated herein by reference to the section entitled "Audit Matters" in the Company's definitive proxy statement for its annual meeting of shareholders to be held June 28, 2006 to be filed with the Securities and Exchange Commission.

PART IV

ITEM 15, EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Financial Statements

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

Management's Report on Internal Control over Financial Reporting
Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting
Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets, January 28, 2006 and January 29, 2005
Consolidated Statements of Earnings, each of the three fiscal years ended 2006, 2005 and 2004
Consolidated Statements of Cash Flows, each of the three fiscal years ended 2006, 2005 and 2004
Consolidated Statements of Shareholders' Equity, each of the three fiscal years ended 2006, 2005 and 2004
Notes to Consolidated Financial Statements

Financial Statement Schedules

II -Valuation and Qualifying Accounts, each of the three fiscal years ended 2006, 2005 and 2004

All other schedules are omitted because the required information is either not applicable or is presented in the financial statements or related notes. These schedules begin on page 111.

Exhibits

- (2) a. Agreement and Plan of Merger, dated as of February 5, 2004, by and among Genesco Inc., HWC Merger Sub, Inc. and Hat World Corporation. Incorporated by reference to Exhibit (2)a to the current report on Form 8-K filed April 9, 2004 (File No. 1 — 3083).
- (3) a. Amended and Restated Bylaws of Genesco Inc. Incorporated by reference to Exhibit (3)a to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1995.
b. Restated Charter of Genesco Inc., as amended. Incorporated by reference to Exhibit 1 to the Company's Registration Statement on Form 8-A/A filed with the SEC on May 1, 2003.
- (4) a. Indenture, dated as of June 24, 2003, between Genesco Inc. and Bank of New York (including Form of 4.125% Convertible Subordinated Debenture due 2023). Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended August 2, 2003.

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Exhibits

- b. Registration Rights Agreement, dated as of June 24, 2003, by and among Genesco Inc., Banc of America Securities, LLC, Banc One Capital Markets, Inc., JP Morgan Securities Inc. and Wells Fargo Securities, LLC. Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended August 2, 2003.
 - c. Form of Certificate for the Common Stock. Incorporated by reference to Exhibit 3 to the Company's Registration Statement on Form 8-A/A filed with the SEC on May 1, 2003.
- (10)
- a. Credit Agreement, dated as of April 1, 2004, by and among Genesco Inc., as Borrower, certain Subsidiaries of the Borrower from time to time party thereto as Guarantors, Bank of America, N.A., as Administrative Agent and L/C Issuer and other Lenders party thereto. Incorporated by reference to Exhibit (10)a to the current report on Form 8-K filed April 9, 2004 (File No. 1 — 3083). First Amendment to Credit Agreement and Waiver, dated as of April 12, 2005 by and among Genesco Inc., as Borrower, certain Subsidiaries of the Borrower from time to time party thereto as Guarantors, Bank of America, N.A., as Administrative Agent and L/C Issuer and other Lenders party thereto. Incorporated by reference to Exhibit (10)a to the Company's Annual Report on Form 10-K for the fiscal year ended January 29, 2005. Second Amendment to Credit Agreement and Waiver, dated as of April 10, 2006 by and among Genesco Inc., as Borrower, certain Subsidiaries of the Borrower from time to time party thereto as Guarantors, Bank of America, N.A., as Administrative Agent and L/C Issuer and other Lenders party thereto.
 - b. Form of Revolving Note. Incorporated by reference to Exhibit (10)b to the current report on Form 8-K filed April 9, 2004 (File No. 1 — 3083).
 - c. Form of Term Note. Incorporated by reference to Exhibit (10)c to the current report on Form 8-K filed April 9, 2004 (File No. 1 — 3083).
 - d. Form of Split-Dollar Insurance Agreement with Executive Officers. Incorporated by reference to Exhibit (10)a to the Company's Annual Report on Form 10-K for the fiscal year ended February 1, 1997.
 - e. 1996 Stock Incentive Plan as amended and restated, incorporated by reference to Registration Statement on Form S-8 filed May 1, 2003 (File No. 333-104908), and Form of Option Agreement.
 - f. Genesco Inc. 2005 Equity Incentive Plan. Incorporated by reference to Exhibit 10.1 to the current report on Form 8-K filed June 28, 2005 (File No. 1-3083).
 - g. 2006 EVA Incentive Compensation Plan. Incorporated by reference to Exhibit (10)h to the Company's Annual Report on Form 10-K for the fiscal year ended January 29, 2005.
 - h. 2007 EVA Incentive Compensation Plan.
 - i. Employment Agreement, dated as of February 5, 2004, between Genesco Inc. and Robert J. Dennis. Incorporated by reference to Exhibit 10.1 to the current report on Form 8-K filed October 27, 2005 (File No. 1-3083).
 - j. Form of Incentive Stock Option Agreement. Incorporated by reference to Exhibit (10)c to the Company's Quarterly Report on Form 10-Q for the quarter ended October 29, 2005.
 - k. Form of Non-Qualified Stock Option Agreement. Incorporated by reference to Exhibit (10)d to the Company's Quarterly Report on Form 10-Q for the quarter ended October 29, 2005.

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Exhibits

- l. Form of Restricted Share Award Agreement for Executive Officers. Incorporated by reference to Exhibit (10)e to the Company's Quarterly Report on Form 10-Q for the quarter ended October 29, 2005.
- m. Form of Restricted Share Award Agreement for Officers and Employee. Incorporated by reference to Exhibit (10)f to the Company's Quarterly Report on Form 10-Q for the quarter ended October 29, 2005.
- n. Form of Indemnification Agreement For Directors. Incorporated by reference to Exhibit (10)m to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1993.
- o. Supplemental Pension Agreement dated as of October 18, 1988 between the Company and William S. Wire II, as amended January 9, 1993. Incorporated by reference to Exhibit (10)p to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1993.
- p. Deferred Compensation Trust Agreement dated as of February 27, 1991 between the Company and NationsBank of Tennessee for the benefit of William S. Wire, II, as amended January 9, 1993. Incorporated by reference to Exhibit (10)q to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1993.
- q. Amended and Restated Shareholders Rights Agreement dated as of August 28, 2000. Incorporated by reference to Exhibit 4 to the current report on Form 8-K filed August 30, 2000 (File No. 1-3083).
- r. Form of Employment Protection Agreement between the Company and certain executive officers dated as of February 26, 1997. Incorporated by reference to Exhibit (10)p to the Company's Annual Report on Form 10-K for the fiscal year ended February 1, 1997.
- s. Trademark License Agreement, dated August 9, 2000, between Levi Strauss & Co. and Genesco Inc. Incorporated by reference to Exhibit (10.1) to the Company's Quarterly Report on Form 10-Q for the quarter ended October 30, 2004.*
- t. Amendment No. 1 (Renewal) to Trademark License Agreement, dated October 18, 2004, between Levi Strauss & Co. and Genesco Inc. Incorporated by reference to Exhibit (10.2) to the Company's Quarterly Report on Form 10-Q for the quarter ended October 30, 2004.*
- u. Genesco Inc. Deferred Income Plan dated as of July 1, 2000 and Amendment to the Genesco Inc. Deferred Income Plan dated January 1, 2001. Incorporated by reference to Exhibit (10)p to the Company's Annual Report on Form 10-K for the fiscal year ended January 29, 2005.
- v. Non-Employee Director and Named Executive Officer Compensation. Incorporated by reference to Exhibit (10)b to the Company's Quarterly Report on Form 10-Q for the quarter ended October 29, 2005.
- w. 1996 Employee Stock Purchase Plan. Incorporated by reference to Registration Statement on Form S-8 filed September 14, 1995 (File No. 333-62653).
- x. Amended and Restated Genesco Employee Stock Purchase Plan dated August 24, 2005. Incorporated by reference to Exhibit (10)a to the Company's Quarterly Report on Form 10-Q for the quarter ended July 30, 2005.

(21) Subsidiaries of the Company.

(23) Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm included on page 109.

(24) Power of Attorney

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

Exhibits (10)d through (10)m, (10)r and (10)u through (10)x are Management Contracts or Compensatory Plans or Arrangements required to be filed as Exhibits to this Form 10-K.

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

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

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements on Form S-8 (Registration Nos. 333-15835, 333-30828, 333-35329, 333-50248, 333-94249, 333-62653, 333-08463, 333-104908 and 333-128201) and in the Registration Statement on Form S-3 (Registration Nos. 333-109019) of Genesco Inc. of our reports dated April 11, 2006, with respect to the consolidated financial statements and schedule of Genesco Inc. and Subsidiaries, Genesco Inc. management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of Genesco Inc., included in this Annual Report (Form 10-K) for the year ended January 28, 2006.

We also consent to the incorporation by reference in the Registration Statement on Form S-8 (Registration No. 333-62653) pertaining to the Genesco Inc. 1996 Employee Stock Purchase Plan of our report dated April 11, 2006 with respect to the January 28, 2006 financial statements of the Genesco Employee Stock Purchase Plan, which is included as an exhibit to this Form 10-K.

/s/ Ernst & Young LLP

Nashville, Tennessee
April 11, 2006

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GENESCO INC.

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

Date: April 13, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on the thirteenth day of April, 2006.

/s/Hal N. Pennington Chairman, President and Chief Executive Officer
Hal N. Pennington

/s/James S. Gulmi Senior Vice President — Finance and Chief Financial Officer
James S. Gulmi (Principal Financial Officer)

/s/Paul D. Williams Chief Accounting Officer
Paul D. Williams

Directors:

James S. Beard* Matthew C. Diamond *

Leonard L. Berry * Marty G. Dickens *

William F. Blaufuss, Jr.* Ben T. Harris *

James W. Bradford* Kathleen Mason *

Robert V. Dale * William A. Williamson, Jr.*

*By /s/Roger G. Sisson
Roger G. Sisson
Attorney-In-Fact

Genesco Inc.
and Subsidiaries
Financial Statement Schedule
January 28, 2006

**Genesco Inc.
and Subsidiaries**
Valuation and Qualifying Accounts

Year Ended January 28, 2006

In Thousands	Beginning Balance	Charged to Profit and Loss	Increases (Decreases)	Ending Balance
Reserves deducted from assets in the balance sheet:				
Allowance for bad debts	\$ 357	29	(96)(1)	\$ 290
Allowance for cash discounts	5	-0-	4(2)	9
Allowance for wholesale sales returns	1,144	-0-	(390)(3)	754
Allowance for customer deductions	123	-0-	(47)(4)	76
Allowance for co-op advertising	537	-0-	(227)(5)	310
Totals	\$ 2,166	29	(756)	\$ 1,439

Year Ended January 29, 2005

In Thousands	Beginning Balance	Charged to Profit and Loss	Increases (Decreases)	Ending Balance
Reserves deducted from assets in the balance sheet:				
Allowance for bad debts	\$ 969	3	(615)(1)	\$ 357
Allowance for cash discounts	-0-	-0-	5(2)	5
Allowance for wholesale sales returns	1,872	-0-	(728)(3)	1,144
Allowance for customer deductions	208	-0-	(85)(4)	123
Allowance for co-op advertising	415	-0-	122(5)	537
Totals	\$ 3,464	3	(1,301)	\$ 2,166

Year Ended January 31, 2004

In Thousands	Beginning Balance	Charged to Profit and Loss	Increases (Decreases)	Ending Balance
Reserves deducted from assets in the balance sheet:				
Allowance for bad debts	\$ 731	271	(33)(1)	\$ 969
Allowance for wholesale sales returns	704	-0-	1,168(3)	1,872
Allowance for customer deductions	520	-0-	(312)(4)	208
Allowance for co-op advertising	520	-0-	(105)(5)	415
Totals	\$ 2,475	271	718	\$ 3,464

Note: Most subsidiaries and branches charge credit and collection expense directly to profit and loss. Adding such charges of \$4,000 in 2006, \$12,000 in 2005 and \$2,000 in 2004 to the addition above, the total bad debt expense amounted to \$33,000 in 2006, \$15,000 in 2005 and \$273,000 in 2004.

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

SECOND AMENDMENT TO CREDIT AGREEMENT

THIS SECOND AMENDMENT TO CREDIT AGREEMENT (this "Amendment") is entered into as of April 10, 2006 among (i) GENESCO INC., a Tennessee corporation (the "Borrower"), (ii) the subsidiaries of the Borrower identified as Guarantors on the signature pages hereto, (iii) the Lenders identified on the signature pages hereto and (iv) BANK OF AMERICA, N.A., as Administrative Agent (the "Administrative Agent"). All capitalized terms used herein and not otherwise defined shall have the meanings ascribed to such terms in the Credit Agreement referred to below.

RECITALS

A. A Credit Agreement dated as of April 1, 2004 (as amended by that certain First Amendment, dated as of April 12, 2005, and as further amended or modified from time to time, the "Credit Agreement") has been entered into by and among the Borrower, the Guarantors party thereto (the "Guarantors"), the financial institutions party thereto (the "Lenders") and the Administrative Agent.

B. The Borrower, the Guarantors and the Required Lenders have agreed to an amendment and waiver of the terms of the Credit Agreement as set forth below.

AGREEMENT

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Amendment to Section 8.12 of the Credit Agreement. Section 8.12 of the Credit Agreement is hereby amended by replacing the grid and the subsequent proviso therein with the following:

FISCAL YEAR PERIOD - - - - -	AMOUNT - - - - -
2005 through 2006 (combined)	\$91,000,000
2007	\$60,000,000
2008	\$65,000,000
2009	\$65,000,000

; provided, however, that so long as no Default has occurred and is continuing or would result from such expenditure, any portion of any amount set forth above not to exceed \$5,000,000 per fiscal year period, if not expended in the fiscal year period for which it is permitted above, may be carried over for expenditure in the immediately succeeding fiscal year period.

2. Condition Precedent to Effectiveness. The amendment to the Credit Agreement set forth herein shall be deemed effective as of the date hereof once the Administrative Agent has received from the Loan Parties and the Required Lenders duly executed counterparts of this Amendment.

3. Representations and Warranties. Each Loan Party hereby represents and warrants to the Administrative Agent and the Lenders that, upon giving effect to this Amendment (a) no Default or Event of Default exists and (b) all of the representations and warranties set forth in the Loan Documents are true and correct in all material respects as of the date hereof (except for those that expressly state that they are made as of an earlier date, in which case they shall be true and correct as of such earlier date).

4. Ratification of Credit Agreement. Except as expressly modified and amended in this Amendment, all of the terms, provisions and conditions of the Loan Documents shall remain unchanged and in full force and effect. The term "this Agreement" or "Credit Agreement" and all similar references as used in each of the Loan Documents shall hereafter mean the Credit Agreement as amended by this Amendment. Except as herein specifically agreed, the Credit Agreement is hereby ratified and confirmed and shall remain in full force and effect according to its terms.

5. Authority/Enforceability. Each of the Loan Parties hereby represents and warrants as follows:

(a) It has taken all necessary action to authorize the execution, delivery and performance of this Amendment.

(b) This Amendment has been duly executed and delivered by such Person and constitutes such Person's legal, valid and binding obligation, enforceable in accordance with its terms, except as such enforceability may be subject to (i) bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium or similar laws affecting creditors' rights generally and (ii) general principles of equity (regardless of whether such enforceability is considered in a proceeding at law or in equity).

(c) No consent, approval, authorization or order of, or filing, registration or qualification with, any court or governmental authority or third party is required in connection with the execution, delivery or performance by such Person of this Amendment. The execution, delivery and performance by such Person of this Amendment does not and will not conflict with, result in a breach of or constitute a default under the articles of incorporation, bylaws or other organizational documents of any Loan Party or any of its Subsidiaries or any indenture or other material agreement or instrument to which such Person is a party or by which any of its properties may be bound or the approval of any Governmental Authority relating to such Person except as could not reasonably be expected to have a Material Adverse Effect.

6. Expenses. The Borrower agrees to pay all reasonable costs and expenses in connection with the preparation, execution and delivery of this Amendment, including without limitation the reasonable fees and expenses of Moore & Van Allen PLLC, special counsel to the Administrative Agent.

7. Counterparts/Telecopy. This Amendment may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but all of which shall constitute one and the same instrument. Delivery of executed counterparts by telecopy shall be effective as an original.

8. GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TENNESSEE.

9. Entirety. This Amendment and the other Loan Documents embody the entire agreement between the parties and supersede all prior agreements and understandings, if any, relating to the subject matter hereof. These Loan Documents represent the final agreement between the parties and may not be contradicted by evidence of prior, contemporaneous or subsequent oral agreements of the parties. There are no oral agreements between the parties.

10. Acknowledgment of Guarantors. The Guarantors acknowledge and consent to all of the terms and conditions of this Amendment and agree that this Amendment and any documents executed in connection herewith do not operate to reduce or discharge the Guarantors' obligations under the Credit Agreement or the other Loan Documents.

11. Affirmation of Liens. Each Loan Party affirms the liens and security interests created and granted by it in the Loan Documents (including, but not limited to, the Security Agreement, the Mortgage Instruments and the Control Agreements) and agrees that this Amendment shall in no manner adversely affect or impair such liens and security interests.

[Signature pages to follow]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment, to be duly executed and delivered by their proper and duly authorized officers as of the day and year first above written.

BORROWER:

GENESCO INC.

By: /s/ James S. Gulmi

Name: James S. Gulmi
Title: SVP-Finance & CFO

GUARANTORS:

GENESCO BRANDS INC.,
a Delaware corporation

By: /s/ James S. Gulmi

Name: James S. Gulmi
Title: SVP-Finance & CFO

HAT WORLD CORPORATION,
a Delaware corporation

By: /s/ James S. Gulmi

Name: James S. Gulmi
Title: SVP-Finance & CFO

HAT WORLD INC.,
a Minnesota corporation

By: /s/ James S. Gulmi

Name: James S. Gulmi
Title: SVP-Finance & CFO

Second Amendment to Credit Agreement
Genesco Inc.
April 2006

ADMINISTRATIVE AGENT:

BANK OF AMERICA, N.A., in its capacity
as Administrative Agent

By: /s/ John Pocalyko

Name: John Pocalyko
Title: Senior Vice President

Second Amendment to Credit Agreement
Genesco Inc.
April 2006

LENDERS:

BANK OF AMERICA, N.A.,
as a Lender and L/C Issuer

By: /s/ John Pocalyko

Name: John Pocalyko
Title: Senior Vice President

Second Amendment to Credit Agreement
Genesco Inc.
April 2006

LASALLE BANK NATIONAL ASSOCIATION

By: /s/ W. P. Fischer

Name: W. P. Fischer

Title: Senior Vice President

Second Amendment to Credit Agreement
Genesco Inc.
April 2006

WELLS FARGO FOOTHILL, LLC

By: /s/ Donna Arenson

Name: Donna Arenson

Title: Assistant Vice President

Second Amendment to Credit Agreement
Genesco Inc.
April 2006

NATIONAL CITY BANK

By: /s/ Jennifer Taliaferro

Name: Jennifer Taliaferro
Title: Relationship Manager

Second Amendment to Credit Agreement
Genesco Inc.
April 2006

SUN TRUST BANK

By: /s/ Scott Corley

Name: Scott Corley

Title: Managing Director

Second Amendment to Credit Agreement
Genesco Inc.
April 2006

U.S. BANK NATIONAL ASSOCIATION

By: /s/ Heather Hinkelman

Name: Heather Hinkelman

Title: Banking Officer

Second Amendment to Credit Agreement
Genesco Inc.
April 2006

BRANCH BANKING & TRUST COMPANY

By: /s/ Natalie Ruggiero

Name: Natalie Ruggiero

Title: Banking Officer

Second Amendment to Credit Agreement
Genesco Inc.
April 2006

FIFTH THIRD BANK

By: /s/ John K. Perez

Name: John K. Perez

Title: Vice President

Second Amendment to Credit Agreement
Genesco Inc.
April 2006

PNC BANK NATIONAL ASSOCIATION

By: /s/ Chester A. Misbach, Jr.

Name: Chester A. Misbach, Jr.

Title: Senior Vice President

Second Amendment to Credit Agreement
Genesco Inc.
April 2006

GENESCO INC.

AMENDED AND RESTATED
EVA INCENTIVE COMPENSATION PLAN

1. PURPOSE.

The purposes of the Genesco Inc. EVA Incentive Compensation Plan ("the Plan") are to motivate and reward excellence and teamwork in achieving maximum improvement in shareholder value; to provide attractive and competitive total cash compensation opportunities for exceptional corporate and business unit performance; to reinforce the communication and achievement of the mission, objectives and goals of the Company; to motivate managers to think strategically (long term) as well as tactically (short term); and to enhance the Company's ability to attract, retain and motivate the highest caliber management team. The purposes of the Plan shall be carried out by payment to eligible participants of annual incentive cash awards, subject to the terms and conditions of the Plan and the discretion of the Compensation Committee of the board of directors of the Company.

2. AUTHORIZATION.

On February 24, 2004, the Compensation Committee approved the Plan. On April 26, 2005, the Committee amended the Plan.

3. SELECTION OF PARTICIPANTS.

Participants shall be selected annually by the Chief Executive Officer from among full-time employees of the Company who serve in operational, administrative, professional or technical capacities. The participation and target bonus amounts of Company officers and the Management Committee shall be approved by the Compensation Committee with the advice of the Chief Executive Officer. The Chief Executive Officer shall not be eligible to participate in the Plan.

The Chief Executive Officer shall annually assign participants to a Business Unit. For participants whose Business Unit consists of more than one profit center, the Chief Executive Officer shall determine in advance the relative weight to be given to the performance of each profit center in the calculation of awards. If a participant is transferred to a different business unit during the Plan Year he or she shall be eligible to receive a bonus for each of the Business Units to which the participant was assigned during the Plan Year, prorated for the amount of time worked in each assignment, unless the Chief Executive Officer determines that a different proration is warranted in the circumstances.

In the event of another significant change in the responsibilities and duties of a participant during a Plan Year, the Chief Executive Officer shall have the authority, in his sole discretion, to terminate the participant's participation in the Plan, if such change results in diminished responsibilities, or to make such changes as he deems appropriate in (i) the target award the participant is eligible to earn, (ii) the participant's applicable goal(s) and (iii) the period during which the participant's applicable award applies.

4. PARTICIPANTS ADDED DURING PLAN YEAR.

A person selected for participation in the Plan after the beginning of a Plan Year will be eligible to earn a prorated portion of the award the participant might have otherwise earned for a full year's service under the Plan during that Plan Year, provided the participant is actively employed as a participant under the Plan for at least 120 days during the Plan Year. The amount of the award, if any, earned by such participant for such Plan Year shall be based on the number of full months of the Plan Year during which the employee participated in the Plan.

5. DISQUALIFICATION FOR UNSATISFACTORY PERFORMANCE.

Any participant whose performance is found to be unsatisfactory or who shall have violated in any material respect the Company's Policy on Legal Compliance and Ethical Business Practices shall not be eligible to receive an award under the Plan in the current Plan Year. The participant shall be eligible to be considered by the Chief Executive Officer for reinstatement to the Plan in subsequent Plan Years. Any determination of unsatisfactory performance or of violation of the Company's Policy on Legal Compliance and Ethical Business Practices shall be made by the Chief Executive Officer. Participants who are found ineligible for participation in a Plan Year due to unsatisfactory performance will be so notified in writing prior to October 31 of the Plan Year.

6. TERMINATION OF EMPLOYMENT.

A participant whose employment is terminated voluntarily or involuntarily, except by reason of death, medical disability or voluntary retirement, prior to the end of a Plan Year shall not be eligible to receive an award under the Plan. A participant who voluntarily retires, is on medical leave of absence or the estate of a participant who dies during the Plan Year will be eligible to receive the sum of a prorated portion of the award (positive or negative) the participant would have otherwise received for a full year's service under the Plan, provided the participant is actively employed as a participant under the Plan for at least 120 days during the Plan Year, and the participant's bonus bank (positive or negative). The amount of any award payable to such disabled or retired participant or the estate of such deceased participant shall be based on the number of full months of the Plan Year during which the disabled, retired or deceased employee was classified in the Company's payroll system as an active employee. A participant who has received or is receiving severance pay at the end of the Plan Year shall be considered a terminated employee and shall not be eligible to receive an award under the Plan.

7. ECONOMIC VALUE ADDED ("EVA") CALCULATION

EVA for a Business Unit or the entire Company, as applicable, shall be the result of a Business Unit's or the Company's net operating profit after taxes less a charge for capital employed by that Business Unit or the Company. The Company will track the change in EVA by Business Unit over each Plan Year for the purpose of determining bonus as further described below.

8. AMOUNT OF AWARDS.

Participants are eligible to earn cash awards based on (i) change in EVA for a Business Unit and (ii) achievement of individual Performance Plan Goals to be approved by the Chief Executive Officer prior to March 31 of each Plan Year. Prior to the beginning of each Plan Year, the Chief Executive Officer will establish for each Business Unit and for the Company as a whole target levels of expected changes in EVA for each Business Unit and for the Company for such Plan Year and a range of multiples to be applied to the participant's target bonus based on actual performance for the Plan Year. The multiple related to Business Unit performance is referred to as the "Business Unit Multiple." If a participant's Business Unit is comprised of more than one profit center, the Chief Executive Officer shall determine the relative weight to be assigned to each profit center's Business Unit Multiple. The Business Unit Multiple for such participant shall be the weighted average of the Business Unit Multiples for each profit center comprising the participant's Business Unit. The multiple related to the performance of the Company as a whole is referred to as the "Corporate Multiple." The Corporate Multiple and Business Unit Multiples may be positive or negative and may consist of whole numbers or fractions. Not later than March 31 the Plan Year, the participant and the participant's supervisor shall agree on a set of strategic performance objectives for the participant for the Plan Year (the "Performance Plan Goals").

The "Declared Bonus" shall be determined as follows:

For participants who are Business Unit Presidents, the Declared Bonus shall equal the sum of (A) the Business Unit Multiple times one-half the participant's target bonus plus (B) the Corporate Multiple times one-quarter of the participant's target bonus plus (C) the percentage of the participant's achievement of his or her Performance Plan Goals determined by the participant's supervisor (the "Performance Plan Percentage") times one-quarter of the participant's target bonus times the Business Unit Multiple; provided, however that if the Business Unit Multiple is a negative number, the Performance Plan Percentage shall be 100%.

For other Business Unit participants, the Declared Bonus shall equal the sum of (A) the Business Unit Multiple times 75% of the participant's target bonus plus (B) the Business Unit Multiple times 25% of the participant's target bonus times the Performance Plan Percentage; provided, however that if the Business Unit Multiple is a negative number, the Performance Plan Percentage shall be 100%.

For the Corporate Staff participants, the Declared Bonus shall equal the sum of (A) the Corporate Multiple times 75% of the participant's target bonus plus (B) the Corporate Multiple times 25% of the participant's target bonus times the Performance Plan Percentage; provided that, if the Corporate Multiple is a negative number, the Performance Plan Percentage shall be 100%.

A participant's bonus payout at the end of the Plan Year shall be equal to the sum of: (i) the Declared Bonus, up to three times the participant's target bonus for the Plan Year plus (ii) one-third of the participant's Declared Bonus in excess of three times the target bonus, provided, however, that in years in which a positive Declared Bonus is earned but a negative bank balance exists to be repaid, 60% of the Declared Bonus will be credited to the negative bank.

A "Bonus Bank" shall be established for each participant each year and shall consist of: (i) the participant's positive Declared Bonus not distributed because of payout limitations or (ii) the participant's negative Declared Bonus, as applicable. The positive Bonus Bank established for each Plan Year shall be paid out in three equal annual installments beginning the year following the Current Plan year except that positive bank balances that exist from prior years will be fully netted against a negative award in the year the negative award is realized.

Any positive balance in the Bonus Bank shall be payable without interest promptly upon the Company's termination of the participant's employment without "Cause," or upon the participant's death or retirement. "Cause" for termination for purposes of this Plan means any act of dishonesty involving the Company, any violation of the Policy on Legal Compliance and Ethical Business Practices as then in effect, any breach of fiduciary duty owed to the Company, persistent or flagrant failure to follow the lawful directives of the board of directors or of the executive to whom the participant reports or conviction of a felony.

Nothing in this Plan (including but not limited to the foregoing definition of Cause) shall in any manner alter the participant's status as an employee at will or limit the Company's right or ability to terminate the participant's employment for any reason or for no reason at all. Upon termination for Cause or voluntary termination at the participant's instance, any unpaid portion of the "Bonus Bank" will be forfeited by the participant.

9. PAYMENT OF AWARDS.

Any awards payable under the Plan (including awards with respect to participants who die, are placed on medical leave of absence or voluntarily retire during the Plan Year), other than the amount, if any, to be credited to the Bonus Bank, will be made in cash, net of applicable withholding taxes, as soon as reasonably practicable after the end of the Plan Year, but in no event prior to the date on which the Company's audited financial statements for the Plan Year are reviewed by the audit committee of the Company's board of directors. The positive Bonus Bank

balance will be paid in cash, net of applicable withholding taxes, as soon as reasonably practicable after the date on which it becomes payable.

10. PLAN ADMINISTRATION.

The Chief Executive Officer shall have final authority to interpret the provisions of the Plan. Interpretations by the Chief Executive Officer which are not patently inconsistent with the express provisions of the Plan shall be conclusive and binding on all participants and their designated beneficiaries. It is the responsibility of the Vice President Human Resources & Administration (i) to cause each person selected to participate in the Plan to be furnished with a copy of the Plan and to be notified in writing of such selection, the applicable goals and the range of the awards for which the participant is eligible; (ii) to cause the awards to be calculated in accordance with the Plan; and (iii) except to the extent reserved to the Chief Executive Officer or the Compensation Committee hereunder, to administer the Plan consistent with its express provisions.

11. NON-ASSIGNABILITY.

A participant may not at any time encumber, transfer, pledge or otherwise dispose of or alienate any present or future right or expectancy that the participant may have at any time to receive any payment under the Plan. Any present or future right or expectancy to any such payment is non-assignable and shall not be subject to execution, attachment or similar process.

12. MISCELLANEOUS.

Nothing in the Plan shall interfere with or limit in any way the right of the Company to terminate any participant's employment or to change any participant's duties and responsibilities, nor confer upon any participant the right to be selected to participate in any incentive compensation plans for future years. Neither the Chief Executive Officer, the Vice President Human Resources & Administration, nor the Compensation Committee shall have any liability for any action taken or determination made under the Plan in good faith.

13. BINDING ON SUCCESSORS.

The obligations of the Company under the Plan shall be binding upon any organization which shall succeed to all or substantially all of the assets of the Company, and the term Company, whenever used in the Plan, shall mean and include any such organization after the succession. If the subject matter of this Section 13 is covered by a change-in-control agreement or similar agreement which is more favorable to the participant than this Section 13, such other agreement shall govern to the extent applicable and to the extent inconsistent herewith.

14. DEFINITIONS.

"EVA" means the economic value added to the Company during the Plan Year as determined by the net operating profit in a particular Business Unit as reflected on the Company's books for internal reporting purposes, reduced by the cost of capital.

"BUSINESS UNIT" means any of the Company's profit centers or any combination of two or more of the profit centers, which comprise Genesco Inc.

The "CHIEF EXECUTIVE OFFICER" means the president and chief executive officer of the Company.

The "COMPANY" means Genesco Inc. and any wholly owned subsidiary of Genesco Inc.

The "COMPENSATION COMMITTEE" means the compensation committee of the board of directors of the Company.

The "PLAN" means this EVA Incentive Compensation Plan for the Plan Year.

"PLAN YEAR" means the fiscal year of the Company ending January 31, 2007.

The "VICE PRESIDENT HUMAN RESOURCES & ADMINISTRATION" means the vice president Human Resources & Administration of Genesco Inc.

The "MANAGEMENT COMMITTEE" means executives of the Company with a direct reporting relationship to the Chief Executive Officer.

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EXHIBIT (21)

SUBSIDIARIES OF THE REGISTRANT

SUBSIDIARIES OF THE COMPANY:

NAMES OF SUBSIDIARY -----	PLACE OF INCORPORATION -----	PERCENT OF VOTING SECURITIES OWNED BY REGISTRANT -----
Beagen Street Corporation	Delaware	100
Flagg Bros. of Puerto Rico, Inc.	Delaware	100
GCO Properties, Inc.	Tennessee	100
Genesco Brands, Inc.	Delaware	100
Genesco Global, Inc.	Delaware	100
Genesco Merger Company Inc.	Tennessee	100
Genesco Netherlands BV	Netherlands	100
Genesco Virgin Islands	Virgin Islands	100
Genesco World Apparel, Ltd.	Delaware	100
Hat World Corporation	Delaware	100
GCO Canada Inc.	Canada	100
Hat World, Inc.	Minnesota	100
Hatworld.com, Inc.	South Dakota	100

POWER OF ATTORNEY

The undersigned, certain of the officers and directors of Genesco Inc., a Tennessee corporation ("Genesco"), do hereby constitute and appoint Roger G. Sisson and James S. Gulmi, and any one of them, to act severally as attorneys-in-fact for and in their respective names, places and steads, with full power of substitution, to execute, sign and file with the Securities and Exchange Commission the Annual Report on Form 10-K of Genesco for the fiscal year ended January 28, 2006, and any and all amendments thereto; granting to said attorneys-in-fact, and each of them, full power and authority to do and perform every act and thing whatsoever requisite or necessary to be done in and about the premises as fully to all intents and purposes as the undersigned or any of them might or could do if personally present, and the undersigned do hereby ratify and confirm all that said attorney-in-fact or any of them, or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

EXECUTED as of this 22nd day of February, 2006.

/s/ Hal N. Pennington

Hal N. Pennington, Chairman, President
and Chief Executive Officer

/s/ James S. Gulmi

James S. Gulmi, Senior Vice President-Finance
(Principal Financial Officer)

/s/ James S. Beard

James S. Beard, Director

/s/ Matthew C. Diamond

Matthew C. Diamond, Director

/s/ Leonard L. Berry

Leonard L. Berry, Director

/s/ Marty G. Dickens

Marty G. Dickens, Director

/s/ William F. Blaufuss, Jr.

William F. Blaufuss, Jr., Director

/s/ Ben T. Harris

Ben T. Harris, Director

/s/ James W. Bradford

James W. Bradford, Director

/s/ Kathleen Mason

Kathleen Mason, Director

/s/ Robert V. Dale

Robert V. Dale, Director

/s/ William A. Williamson, Jr.

William A. Williamson, Jr., Director

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Hal N. Pennington, certify that:

1. I have reviewed this annual report on Form 10-K of Genesco Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 13, 2006

/s/ Hal N. Pennington

Hal N. Pennington
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, James S. Gulmi, certify that:

1. I have reviewed this annual report on Form 10-K of Genesco Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 13, 2006

/s/ James S. Gulmi

James S. Gulmi
Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Genesco Inc. (the "Company") on Form 10-K for the period ending January 28, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Hal N. Pennington, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Hal N. Pennington

Hal N. Pennington
Chief Executive Officer
April 13, 2006

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Genesco Inc. (the "Company") on Form 10-K for the period ending January 28, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James S. Gulmi, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ James S. Gulmi

James S. Gulmi
Chief Financial Officer
April 13, 2006

FINANCIAL STATEMENTS

Genesco Employee Stock Purchase Plan

As of January 28, 2006 and January 29, 2005 and Each of the Three Fiscal Years
in the Period Ended January 28, 2006 with Report of Independent Registered
Public Accounting Firm

GENESCO EMPLOYEE STOCK PURCHASE PLAN

Financial Statements

January 28, 2006 and January 29, 2005

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Report of Independent Registered Public Accounting Firm

To the Participants and Administrator
of the Genesco Employee Stock Purchase Plan

We have audited the accompanying statements of financial condition of the Genesco Employee Stock Purchase Plan as of January 28, 2006 and January 29, 2005 and the related statements of income and changes in plan equity for each of the three fiscal years in the period ended January 28, 2006. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Plan's internal control over financial reporting. Our audits include consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Genesco Employee Stock Purchase Plan at January 28, 2006 and January 29, 2005, and the income and changes in plan equity for each of the three fiscal years in the period ended January 28, 2006, in conformity with U. S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Nashville, Tennessee
April 11, 2006

GENESCO EMPLOYEE STOCK PURCHASE PLAN
 Statements of Financial Condition

	JANUARY 28, 2006 -----	JANUARY 29, 2005 -----
ASSETS		
Due from Genesco Inc.	\$ 146,260	\$ 186,694
	-----	-----
TOTAL ASSETS	\$ 146,260	\$ 186,694
	=====	=====
LIABILITIES AND PLAN EQUITY		
Plan equity	\$ 146,260	\$ 186,694
	-----	-----
TOTAL LIABILITIES AND PLAN EQUITY	\$ 146,260	\$ 186,694
	=====	=====

See accompanying notes.

GENESCO EMPLOYEE STOCK PURCHASE PLAN
 Statements of Income and Changes in Plan Equity

	FOR THE YEAR ENDED		
	JANUARY 28 2006	JANUARY 29, 2005	JANUARY 31, 2004
Employee contributions	\$ 512,382	\$ 426,591	\$ 398,174
Options exercised	(508,053)	(351,108)	(359,180)
Distributions to withdrawn participants	(44,763)	(37,140)	(50,175)
Net increase (decrease) in plan equity	(40,434)	38,343	(11,181)
Plan equity at beginning of year	186,694	148,351	159,532
PLAN EQUITY AT END OF YEAR	\$ 146,260	\$ 186,694	\$ 148,351

See accompanying notes.

GENESCO EMPLOYEE STOCK PURCHASE PLAN
Notes to Financial Statements

NOTE 1
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The records of the Genesco Employee Stock Purchase Plan (the "Plan") are prepared on the accrual basis of accounting.

ADMINISTRATIVE EXPENSES

All expenses incurred in administration of the Plan are paid by Genesco Inc. (the "Company") and are excluded from these financial statements.

USE OF ESTIMATES

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

NOTE 2
THE PLAN

BACKGROUND AND SUMMARY

The following description of the Plan provides only general information. Participants should refer to the Plan document for a more complete description of the Plan's provisions.

The Plan became effective October 1, 1995 to advance the interests of the Company and its shareholders by attracting and retaining qualified employees and by encouraging them to identify with shareholder interests through the acquisition of shares of the Company's common stock.

ELIGIBILITY

Each employee whose total annual base salary is less than \$90,000 and whose customary employment is greater than 20 hours per week and greater than five months per year is eligible to participate in the Plan if the employee has been employed by the Company for at least six months prior to the grant date. The Plan excludes statutory insiders and five percent shareholders.

CONTRIBUTIONS

Contributions to the Plan are solely from participating employees of the Company who, through after-tax payroll deductions, may use their contributions to purchase common stock of the Company at the end of a one-year option period. The maximum number of shares available to any participant is the lesser of 2,000 a year or that number of shares equal to \$10,000 divided by the closing market price of the common stock on the grant date or the exercise date. The maximum contribution is the lesser of \$8,500 a year or 15% of the participant's base pay as of October 1. The minimum contribution is \$250 per participant per year. Shares will be purchased September 30 of the year following the October 1 grant date with the initial grant date being October 1, 1995.

GENESCO EMPLOYEE STOCK PURCHASE PLAN
Notes to Financial Statements (Continued)

NOTE 2
THE PLAN, CONTINUED

CONTRIBUTIONS (CONTINUED)

An option enables the participant to purchase shares of the Company's common stock at the lesser of 85% of the market value on the grant date or the exercise date. Effective as of October 1, 2005, the Company adopted a Safe Harbor Plan. Under the Safe Harbor Plan, the participant will purchase shares of the Company's common stock at 95% of the market price on the exercise date. Options are to be granted each year through and including October 1, 2005, unless the board of directors, at its discretion, determines in advance that no options are to be granted. The cumulative number of shares which may be purchased under the Plan is 1,000,000. The options granted and rights thereto may not be sold, assigned, pledged or otherwise transferred.

PARTICIPANT ACCOUNTS

Periodically throughout the year, each participant is provided with statements reflecting the value of his or her account. Participant contributions are held by the Company, which has an unsecured obligation to the Plan.

At the exercise date, the Company issues stock that is transferred to a brokerage firm and distributed according to the number of options exercised by each participant.

VESTING

Participants are 100% vested in the value of their account and may withdraw from the Plan at any time except during the period September 15 through September 30 which is the time that preparations are made for the issuance of the stock each year.

If a participant is terminated for any reason other than retirement, disability or death, the participant's involvement in the Plan and any unexercised options automatically terminate, and the participant will receive the account balance in cash.

TERMINATION OF THE PLAN

The Company reserves the right to terminate the Plan at any time. In the event of Plan termination, the balance of each participant's account shall be paid in cash as soon as is reasonably practical.

PLAN ADMINISTRATOR

The Plan is to be administered by the compensation committee of the Company's board of directors or another designee of the board of directors.

INCOME TAX STATUS

The Plan is intended to qualify as an Employee Stock Purchase Plan within the meaning of Section 423 of the Internal Revenue Code of 1986 ("the Code"), as amended. Issuance of shares under this Plan are not intended to result in taxable income to participants in the Plan based on provisions of the Code. Accordingly, no income will result for federal income tax purposes when an option is granted or exercised; however, income may result upon disposition of the stock. Management believes that the Plan is operating in compliance with the Code and, therefore, no provision for income taxes has been reflected in the accompanying financial statements.

GENESCO EMPLOYEE STOCK PURCHASE PLAN
Notes to Financial Statements (Continued)

NOTE 3
OPTIONS TO PURCHASE COMPANY STOCK

	TOTAL	OPTION PERIOD		
		10/01/05 TO 09/30/06	10/01/04 TO 09/30/05	10/01/03 TO 09/30/04
Options TO PURCHASE COMPANY STOCK				
Estimated options granted - October 1, 2003	29,543	-0-	-0-	29,543
Additional options granted at exercise date	-0-	-0-	-0-	-0-
Options exercised	-0-	-0-	-0-	-0-
Options withdrawn	(1,277)	-0-	-0-	(1,277)
Options outstanding, January 31, 2004	28,266	-0-	-0-	28,266
Estimated options granted - October 1, 2004	25,188	-0-	25,188	-0-
Additional options granted at exercise date	155	-0-	-0-	155
Options exercised	(24,529)	-0-	-0-	(24,529)
Options withdrawn	(3,892)	-0-	-0-	(3,892)
Options outstanding, January 29, 2005	25,188	-0-	25,188	-0-
Estimated options granted - October 1, 2005	12,811	12,811	-0-	-0-
Additional options granted at exercise date	2,754	-0-	2,754	-0-
Options exercised	(24,978)	-0-	(24,978)	-0-
Options withdrawn	(4,029)	(1,065)	(2,964)	-0-
Options outstanding, January 28, 2006	11,746	11,746	-0-	-0-

The cumulative options exercised as of January 28, 2006 are 656,491.

	OPTION PERIOD		
	10/01/05 TO 09/30/06	10/01/04 TO 09/30/05	10/01/03 TO 09/30/04
85% of fair market value of stock at date of grant	-	\$20.34	\$14.31
Date of grant	10/1/05	10/1/04	10/1/03
85% of fair market value of stock at date of exercise	-	\$31.65	\$20.02
Exercise date	9/30/06	9/30/05	9/30/04
95% of fair market value of stock at date of exercise	NA	-	-

At the beginning of each option period, the Company estimates the number of options to be granted based on participant contributions and the current stock price. At the end of the option period, the Company grants options to each plan participant. In the event plan contributions, withdrawals or the stock price are different than originally estimated, additional or fewer options may be granted at the end of the option period (exercise date).

GENESCO EMPLOYEE STOCK PURCHASE PLAN
Notes to Financial Statements (Continued)

NOTE 3
OPTIONS TO PURCHASE COMPANY STOCK, CONTINUED

NUMBER OF PARTICIPANTS	TOTAL	OPTION PERIOD		
		10/01/05 TO 09/30/06	10/01/04 TO 09/30/05	10/01/03 TO 09/30/04
Enrollment - October 1, 2003	310	-0-	-0-	310
Exercised options	-0-	-0-	-0-	-0-
Withdrawn	(13)	-0-	-0-	(13)
Active, January 31, 2004	297	-0-	-0-	297
Enrollment - October 1, 2004	449	-0-	449	-0-
Exercised options	(252)	-0-	-0-	(252)
Withdrawn	(45)	-0-	-0-	(45)
Active, January 29, 2005	449	-0-	449	-0-
Enrollment - October 1, 2005	422	422	-0-	-0-
Exercised options	(363)	-0-	(363)	-0-
Withdrawn	(108)	(22)	(86)	-0-
Active, January 28, 2006	400	400	-0-	-0-

