

GENESCO INC  
Form 10-Q/A  
December 23, 2003

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(Mark One)

**Form 10-Q/A**  
(Amendment No. 1)  
Quarterly Report Pursuant To  
Section 13 or 15(d) of the  
Securities Exchange Act of 1934  
For Quarter Ended  
May 3, 2003

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

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**Genesco Inc.**  
A Tennessee Corporation  
I.R.S. No. 62-0211340  
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Nashville, Tennessee 37217-2895  
Telephone 615/367-7000

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

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Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

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\* These items have been amended and restated in their entirety.

\*\* These items have not been amended and are included herein for convenience of reference only.

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## Consolidated Balance Sheet

In Thousands

	May 3, 2003	February 1, 2003	May 4, 2002
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 57,671	\$ 55,929	\$ 44,266
Accounts receivable	19,394	19,412	22,513
Inventories	163,769	168,622	143,448
Deferred income taxes	11,658	11,909	14,807
Other current assets	14,181	13,559	12,584
	<u>266,673</u>	<u>269,431</u>	<u>237,618</u>
Total current assets	266,673	269,431	237,618
Plant, equipment and capital leases	126,979	127,542	125,419
Deferred income taxes	17,787	17,787	8,611
Other noncurrent assets	4,545	4,454	4,829
Noncurrent assets of discontinued operations	-0-	-0-	499
	<u>149,311</u>	<u>150,233</u>	<u>143,158</u>
Total Assets	\$415,984	\$419,214	\$376,976
<b>Liabilities and Shareholders' Equity</b>			
<b>Current Liabilities</b>			
Accounts payable	\$ 41,694	\$ 43,660	\$ 38,243
Accrued liabilities	37,623	43,263	36,942
Provision for discontinued operations	668	1,343	3,060
	<u>79,985</u>	<u>88,266</u>	<u>78,245</u>
Total current liabilities	79,985	88,266	78,245
Long-term debt	103,245	103,245	103,245
Other long-term liabilities	46,210	44,924	24,416
Provision for discontinued operations	-0-	-0-	91
	<u>149,455</u>	<u>148,169</u>	<u>127,757</u>
Total liabilities	229,440	236,435	205,997
Contingent liabilities (see Note 8)			
<b>Shareholders' Equity</b>			
Non-redeemable preferred stock	7,594	7,599	7,626
Common shareholders' equity:			
Common stock, \$1 par value:			
Authorized: 80,000,000 shares			
Issued/Outstanding:			
May 3, 2003 - 22,233,874/21,745,410;			
February 1, 2003 - 22,221,566/21,733,102;			
May 4, 2002 - 22,403,893/21,915,429	22,234	22,222	22,404
Additional paid-in capital	97,591	97,488	99,824
Retained earnings	107,042	103,779	75,921
Accumulated other comprehensive loss	(30,060)	(30,452)	(16,939)

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Treasury shares, at cost	(17,857)	(17,857)	(17,857)
Total shareholders' equity	186,544	182,779	170,979
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$415,984</b>	<b>\$419,214</b>	<b>\$376,976</b>

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

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**Genesco Inc.**  
**and Consolidated Subsidiaries**  
 Consolidated Earnings  
 Three Months Ended  
 In Thousands, except per share amounts

	<b>May 3, 2003</b>	<b>May 4, 2002</b>
Net sales	\$ 192,746	\$ 190,593
Cost of sales	104,654	100,445
Selling and administrative expenses	80,653	75,226
Earnings from operations	7,439	14,922
Interest expense	2,206	1,965
Interest income	(174)	(293)
Total interest expense, net	2,032	1,672
Pretax earnings	5,407	13,250
Income taxes	2,070	5,048
<b>Net Earnings</b>	<b>\$ 3,337</b>	<b>\$ 8,202</b>
Basic net earnings per common share	\$ 0.15	\$ 0.37
Diluted net earnings per common share	\$ 0.15	\$ 0.33

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

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**Genesco Inc.**  
**and Consolidated Subsidiaries**  
 Three Months Ended  
 Consolidated Cash Flows  
 In Thousands

	<u>May 3, 2003</u>	<u>May 4, 2002</u>
<b>OPERATIONS:</b>		
Net earnings	\$ 3,337	\$ 8,202
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation	5,109	4,362
Provision for losses on accounts receivable	160	39
Other	271	285
Effect on cash of changes in working capital and other assets and liabilities:		
Accounts receivable	(178)	(2,695)
Inventories	4,853	(592)
Other current assets	(622)	133
Accounts payable	5,358	14,025
Other accrued liabilities	(5,672)	(7,461)
Other assets and liabilities	940	(22)
	<u>13,556</u>	<u>16,276</u>
<b>INVESTING ACTIVITIES:</b>		
Capital expenditures	(4,647)	(17,363)
Proceeds from asset sales	153	-0-
	<u>(4,494)</u>	<u>(17,363)</u>
<b>FINANCING ACTIVITIES:</b>		
Stock repurchase	(31)	-0-
Increase (decrease) in bank overdrafts	(7,324)	(1,895)
Dividends paid	(74)	(74)
Options exercised	109	932
Other	-0-	6
	<u>(7,320)</u>	<u>(1,031)</u>
<b>Net Cash Flow</b>	1,742	(2,118)
Cash and cash equivalents at beginning of period	55,929	46,384
	<u>57,671</u>	<u>44,266</u>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 57,671</b>	<b>\$ 44,266</b>
<b>Supplemental Cash Flow Information:</b>		
Net cash paid for:		
Interest	\$ 3,447	\$ 3,489
Income taxes	3,046	363

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





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

	Total Non- Redeemable Preferred Stock	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Comprehensive Income	Total Share- holders Equity
<b>Balance February 2, 2002</b>	<b>\$ 7,634</b>	<b>\$ 22,331</b>	<b>\$ 98,622</b>	<b>\$ (17,857)</b>	<b>\$ 67,793</b>	<b>(17,336)</b>		<b>\$ 161,187</b>
Net earnings	-0-	-0-	-0-	-0-	36,280	-0-	\$ 36,280	36,280
Dividends paid	-0-	-0-	-0-	-0-	(294)	-0-	-0-	(294)
Exercise of options	-0-	122	1,443	-0-	-0-	-0-	-0-	1,565
Issue shares Employee Stock Purchase Plan	-0-	49	533	-0-	-0-	-0-	-0-	582
Tax effect of exercise of stock options	-0-	-0-	516	-0-	-0-	-0-	-0-	516
Stock repurchases	-0-	(286)	(3,758)	-0-	-0-	-0-	-0-	(4,044)
Gain on foreign currency forward contracts (net of tax of \$0.3 million)	-0-	-0-	-0-	-0-	-0-	439	439	439
Minimum pension liability adjustment (net of tax benefit of \$8.7 million)	-0-	-0-	-0-	-0-	-0-	(13,555)	(13,555)	(13,555)
Other	(35)	6	132	-0-	-0-	-0-	-0-	103
Comprehensive income							23,164	
<b>Balance February 1, 2003</b>	<b>7,599</b>	<b>22,222</b>	<b>97,488</b>	<b>(17,857)</b>	<b>103,779</b>	<b>(30,452)</b>		<b>182,779</b>
Net earnings	-0-	-0-	-0-	-0-	3,337	-0-	3,337	3,337
Dividends paid	-0-	-0-	-0-	-0-	(74)	-0-	-0-	(74)
Exercise of options	-0-	9	100	-0-	-0-	-0-	-0-	109
Tax effect of exercise of stock options	-0-	-0-	4	-0-	-0-	-0-	-0-	4
Stock repurchases	-0-	(3)	(29)	-0-	-0-	-0-	-0-	(32)
Gain on foreign currency forward contracts (net of tax of \$0.2 million)	-0-	-0-	-0-	-0-	-0-	392	392	392
Other	(5)	6	28	-0-	-0-	-0-	-0-	29
Comprehensive income							\$ 3,729	
<b>Balance May 3, 2003</b>	<b>\$ 7,594</b>	<b>\$ 22,234</b>	<b>\$ 97,591</b>	<b>\$ (17,857)</b>	<b>\$ 107,042</b>	<b>\$ (30,060)</b>		<b>\$ 186,544</b>

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

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

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

***Interim Statements***

The consolidated financial statements contained in this report are unaudited but reflect all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the results for the interim periods of the fiscal year ending January 31, 2004 ( Fiscal 2004 ) and of the fiscal year ended February 1, 2003 ( Fiscal 2003 ). The results of operations for any interim period are not necessarily indicative of results for the full year. The interim financial statements should be read in conjunction with the financial statements and notes thereto included in the annual report on Form 10-K/A.

***Nature of Operations***

The Company's businesses include the design or sourcing, marketing and distribution of footwear principally under the *Johnston & Murphy* and *Dockers* brands and the operation at May 3, 2003 of 1,017 *Jarman*, *Journeys*, *Journeys Kidz*, *Johnston & Murphy* and *Underground Station* retail footwear stores and leased departments.

***Basis of Presentation***

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

***Financial Statement Reclassifications***

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

The Company has revised its Statement of Cash Flows to separately present the increases (decreases) in bank overdraft balances as a financing activity. Increases (decreases) in bank overdraft balances had previously been included in changes in accounts payable and accrued liabilities and included in net cash provided by operating activities. As a result of this reclassification, net cash provided by operating activities increased \$7.3 million and \$1.9 million in the three month periods ended May 3, 2003 and May 4, 2002, respectively. Net cash used in financing activities decreased \$7.3 million and \$1.9 million in the three month periods ended May 3, 2003 and May 4, 2002, respectively. As a result of this reclassification, there was no change to net cash flow for the three month periods ended May 3, 2003 or May 4, 2003.

***Cash and Cash Equivalents***

Included in cash and cash equivalents at February 1, 2003 and May 3, 2003, are cash equivalents of \$47.4 million and \$50.1 million, respectively. Cash equivalents are highly-liquid debt instruments having an original maturity of three months or less.

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

***Inventories***

Wholesale inventories are stated at the lower of cost or market, with cost determined principally by the first-in, first-out method. Retail inventories are stated at the lower of cost or market with cost determined under the retail inventory method.

***Property, Equipment and Capital Leases***

Property, equipment and capital leases 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
Machinery, furniture and fixtures	3-15 years

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.

***Impairment of Long-Term Assets***

The Company periodically assesses the realizability of its long-lived assets and evaluates such assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Asset impairment is determined to exist if estimated future cash flows, undiscounted and without interest charges, are less than carrying amount.

***Postretirement Benefits***

Substantially all full-time employees are covered by a defined benefit pension plan. 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.

***Revenue Recognition***

Retail sales are recorded at the point of sale and are net of estimated returns. Wholesale revenue is recorded net of estimated returns 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.

***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 our distribution facilities allocated to our retail operations is included in cost of sales.

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

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

***Selling and Administrative Expenses***

Selling and administrative expenses include all operating costs of the Company excluding (i) those related to the transportation of products from the supplier to the warehouse, (ii) for our retail operations, those related to the transportation of products from the warehouse to the store and (iii) costs of our distribution facilities which are allocated to our retail operations. Wholesale and unallocated retail costs of distribution are included in selling and administrative expenses in the amounts of \$2.3 million and \$1.2 million for the first quarter of Fiscal 2004 and 2003, respectively.

***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 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.

***Advertising Costs***

Advertising costs are predominantly expensed as incurred. Advertising costs were \$5.1 million and \$5.3 million for the first quarter of Fiscal 2004 and 2003, 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 sheet included prepaid assets in the line item Other Current Assets for direct response advertising costs of \$0.7 million and \$0.6 million at May 3, 2003 and May 4, 2002, respectively.

***Consideration to Resellers***

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

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

*Cooperative Advertising*

Cooperative advertising funds are made available to all of the Company's retail 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 retail 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 EITF Issue No. 01-9, Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products).

Cooperative advertising costs recognized in selling and administrative expenses were \$0.8 million for the first quarter of Fiscal 2004 and 2003. During the first quarter of Fiscal 2004 and 2003, the Company's cooperative advertising reimbursements paid did not exceed the fair value of the benefits received under those agreements.

*Vendor Allowances*

From time to time the Company negotiates allowances from its vendors for markdowns taken. These allowances are recognized as a reduction in cost of sales in the period in which the markdowns are taken.

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 as the associated expense is incurred. If the amount of cash consideration received exceeds the cost being reimbursed, such excess amount would be recorded as a reduction of cost of sales.

Vendor reimbursements of cooperative advertising costs recognized as a reduction of selling and administrative expenses were \$0.6 million and \$0.7 million for the first quarter of Fiscal 2004 and 2003, respectively. During the first quarter of Fiscal 2004 and 2003, the Company's cooperative advertising reimbursements received were not in excess of the costs being reimbursed.

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

***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 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.

***Capitalized Interest***

Statement of Financial Accounting Standards (SFAS) No. 34, *Capitalization of Interest Cost* requires capitalizing interest cost as a part of the historical cost of acquiring certain assets, such as assets that are constructed or produced for a company's own use. The Company capitalized \$0.3 million of interest cost in the first quarter of Fiscal 2003 in connection with the Company's new distribution center.

***Earnings Per Common Share***

Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities to issue common stock were exercised or converted to common stock (see Note 7).

***Other Comprehensive Income***

Statement of Financial Accounting Standards (SFAS) No. 130, *Reporting Comprehensive Income* requires, among other things, the Company's minimum pension liability adjustment and unrealized gains or losses on foreign currency forward contracts to be included in other comprehensive income net of tax. Accumulated other comprehensive loss at May 3, 2003 consists of a \$30.8 million minimum pension liability adjustment, net of tax, and a \$0.7 million gain on foreign currency forward contracts, net of tax.

***Business Segments***

Statement of Financial Accounting Standards (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 9).

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

*Derivative Instruments and Hedging Activities*

The Company implemented Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities in the first quarter of Fiscal 2002. This statement establishes accounting and reporting standards for derivative instruments and for hedging activities. SFAS 133 requires an entity to recognize all derivatives as either assets or liabilities in the consolidated balance sheet and to measure those instruments at fair value. Under certain conditions, a derivative may be specifically designated as a fair value hedge or a cash flow hedge. The accounting for changes in the fair value of a derivative are recorded each period in current earnings or in other comprehensive income depending on the intended use of the derivative and the resulting designation. For the first quarter ended May 3, 2003, the Company recorded an unrealized gain on foreign currency forward contracts of \$0.6 million in accumulated other comprehensive loss, before taxes.

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 February 1, 2003 and May 3, 2003, the Company had approximately \$7.6 million and \$20.8 million, respectively, of such contracts outstanding. Forward exchange contracts have an average remaining term of approximately two and one half months. The unrealized gain based on spot rates under these contracts at February 1, 2003 was \$0.2 million and at May 3, 2003 was \$1.0 million. The Company monitors the credit quality of the major national and regional financial institutions with which it enters into such contracts.

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



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

**Stock Incentive Plans**

The Company implemented Statement of Financial Accounting Standards (SFAS) No. 148, Accounting for Stock-Based Compensation Transition and Disclosure in the fourth quarter of Fiscal 2003. This statement amends the disclosure provisions of FASB Statement No. 123, Accounting for Stock Based Compensation to require prominent disclosure about the effect on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation and amends APB Opinion No. 28, Interim Financial Reporting, to require disclosure about those effects in interim financial information.

As of May 3, 2003, the Company had two fixed stock incentive plans and four restricted stock incentive plans. 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. Accordingly, no compensation cost has been recognized other than for the Company's restricted stock incentive plans as the exercise price is greater than or equal to the market price as of the date of grant. The compensation cost that has been charged against income for its restricted plans was \$0.2 million and \$0.1 million for the first quarter of Fiscal 2004 and 2003, respectively. The compensation cost that has been charged against income for its directors' restricted stock plan was \$28,839 and \$26,334 for the first quarter of Fiscal 2004 and 2003, respectively. There was no additional stock incentive plan compensation reflected in net income, as all options granted under the fixed stock plans had 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 FASB Statement No. 123 Accounting for Stock-Based Compensation, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

(In thousands, except per share amounts)	Three Months Ended	
	May 3, 2003	May 4, 2002
Net income, as reported	\$ 3,337	\$ 8,202
Add: stock-based employee compensation expense included in reported net income, net of related tax effects	119	62
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(515)	(543)
Pro forma net income	\$ 2,941	\$ 7,721
Earnings per share:		
Basic as reported	\$ 0.15	\$ 0.37
Basic pro forma	\$ 0.13	\$ 0.35
Diluted as reported	\$ 0.15	\$ 0.33
Diluted pro forma	\$ 0.13	\$ 0.32

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

*Other New Accounting Principles*

In November 2002, the Emerging Issues Task Force ( EITF ) issued Consensus No. 02-16, Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor. The new pronouncement addresses the accounting for cash consideration received by a customer from a vendor and rebates or refunds from a vendor that are payable only if the customer completes a specified cumulative level of purchases or remains a customer for a specified time period. This statement requires the above to be treated as a reduction of cost of inventory purchased unless the cash consideration received from vendors represents a reimbursement of specific, incremental, identifiable costs incurred by the customer in selling the vendor's products or services, in which case the reimbursement should be characterized as a reduction of that cost during the period that the cost is incurred. If the amount of consideration received from a vendor exceeds the cost being reimbursed, that excess amount should be characterized as a reduction of cost of sales when recognized in the customer's income statement. The Company adopted this statement effective beginning the first quarter of Fiscal 2004. The adoption did not have a material impact on its results of operations or financial condition because the Company has historically followed the provisions of EITF No. 02-16.

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**Genesco Inc.**  
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**Note 2**  
**Impairment and Other Charges**

*Impairment and Other Charges*

The Company recorded a pretax charge to earnings of \$2.5 million (\$1.6 million net of tax) in the fourth quarter of Fiscal 2003. The charge includes \$2.4 million in asset impairments related to 14 underperforming retail stores identified as suitable for closing if acceptable lease terminations can be negotiated, the payments related to the termination of one of those leases, and \$0.1 million in severance payments. The majority of these items relate to the Johnston & Murphy division.

**Note 3**  
**Accounts Receivable**

<b>In thousands</b>	<b>May 3, 2003</b>	<b>February 1, 2003</b>
Trade accounts receivable	\$20,464	\$19,196
Miscellaneous receivables	1,616	2,650
<b>Total receivables</b>	<b>22,080</b>	<b>1,846</b>
Allowance for bad debts	(833)	(690)
Other allowances	(1,853)	(1,744)
<b>Net Accounts Receivable</b>	<b>\$19,394</b>	<b>\$19,412</b>

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. Credit risk is affected by conditions or occurrences within the economy and the retail industry. The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information. One customer accounted for 18% and another customer accounted for 15% of the Company's trade receivables balance as of May 3, 2003 and no other customer accounted for more than 7% of the Company's trade receivables balance as of May 3, 2003.

**Note 4**  
**Inventories**

<b>In thousands</b>	<b>May 3, 2003</b>	<b>February 1, 2003</b>
Raw materials	\$ 335	\$ 662
Wholesale merchandise	27,174	37,387
Retail merchandise	136,260	130,573
<b>Total Inventories</b>	<b>\$163,769</b>	<b>\$168,622</b>

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**Note 5**  
**Property, Equipment and Capital Leases, Net**

In thousands	May 3, 2003	February 1, 2003
Property and equipment:		
Land	\$ 4,843	\$ 4,913
Buildings and building equipment	13,981	13,967
Machinery	39,881	41,712
Furniture and fixtures	43,312	42,364
Construction in progress	9,053	9,338
Improvements to leased property	101,137	99,011
Capital leases:		
Buildings	37	37
Property, equipment and capital leases, at cost	212,244	211,342
Accumulated depreciation and amortization:		
Property and equipment	(85,239)	(83,774)
Capital leases	(26)	(26)
<b>Net Property, Equipment and Capital Leases</b>	<b>\$ 126,979</b>	<b>\$ 127,542</b>

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**Note 6**  
**Provision for Discontinued Operations and Restructuring Reserves**

**Provision for Discontinued Operations**

<u>In thousands</u>	<u>Employee Related Costs*</u>	<u>Facility Shutdown Costs</u>	<u>Other</u>	<u>Total</u>
Balance February 2, 2002	\$ 3,918	\$ 3,306	\$ 10	\$ 7,234
Charges and adjustments, net	(2,485)	(3,567)	20	(6,032)
Balance February 1, 2003	1,433	(261)	30	1,202
Charges and adjustments, net	(628)	1	-0-	(627)
Balance May 3, 2003	805	(260)	30	575
Current portion	805	(167)	30	668
<b>Total Noncurrent Provision for Discontinued Operations**</b>	<b>\$ -0-</b>	<b>\$ (93)</b>	<b>\$-0-</b>	<b>\$ (93)</b>

\* Includes \$0.8 million of apparel union pension withdrawal liability.

\*\* Included in other noncurrent assets

**Restructuring Reserves**

<u>In thousands</u>	<u>Employee Related Costs</u>	<u>Facility Shutdown Costs</u>	<u>Other</u>	<u>Total</u>
Balance February 2, 2002	\$ 1,661	\$2,504	\$ 406	\$ 4,571
Additional provision February 1, 2003	106	70	-0-	176
Charges and adjustments, net	(1,344)	354	(406)	(1,396)
Balance February 1, 2003	423	2,928	-0-	3,351
Charges and adjustments, net	(140)	(100)	-0-	(240)
Balance May 3, 2003	283	2,828	-0-	3,111
Current portion (included in accrued liabilities)	283	711	-0-	994
<b>Total Noncurrent Restructuring Reserves (included in other long-term liabilities)</b>	<b>\$ -0-</b>	<b>\$2,117</b>	<b>\$ -0-</b>	<b>\$ 2,117</b>

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**Genesco Inc.**  
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**Note 7**  
**Earnings Per Share**

(In thousands, except per share amounts)	For the Three Months Ended May 3, 2003			For the Three Months Ended May 4, 2002		
	Income (Numerator)	Shares (Denominator)	Per- Share Amount	Income (Numerator)	Shares (Denominator)	Per- Share Amount
Earnings from continuing operations	\$3,337			\$8,202		
Less: Preferred stock dividends	(74)			(74)		
<b>Basic EPS</b> Income available to common shareholders	3,263	21,743	\$ .15	8,128	21,876	\$ .37
<b>Effect of Dilutive Securities</b> Options		201			465	
5 1/2% convertible subordinated notes	-0-	-0-		968	4,906	
Employees preferred stock(1)		65			67	
<b>Diluted EPS</b>						
Income available to common shareholders plus assumed conversions	\$3,263	22,009	\$ .15	\$9,096	27,314	\$ .33

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

The 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 the period. Therefore, conversion of the convertible preferred stock is not reflected in diluted earnings per share, because it would have been antidilutive. The shares convertible to common stock for Series 1, 3 and 4 preferred stock would have been 30,674, 38,324 and 24,946, respectively.

The amount of the interest on the convertible subordinated notes (net of tax) for the period ended May 3, 2003 per common share obtainable on conversion is higher than basic earnings per share, therefore the convertible debt is not reflected in diluted earnings per share because it is antidilutive.

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 has repurchased 7.0 million shares as of May 3, 2003.

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**Genesco Inc.  
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**Note 8  
Legal Proceedings**

*New York State Environmental Proceedings*

The Company was a defendant in a civil action filed by the State of New York against the City of Gloversville, New York, and 33 other private defendants. The action arose out of the alleged disposal of certain hazardous material directly or indirectly into a municipal landfill and sought recovery for the costs of investigating and performing remedial actions and damage to natural resources. The Company paid approximately \$0.2 million in October 2002, in exchange for a release from further liability related to the site.

In 1995, the Company received notice from the New York State Department of Environmental Conservation (the Department) that it deemed remedial action to be necessary with respect to certain contaminants in the vicinity of a knitting mill operated by a former subsidiary of the Company from 1965 to 1969, and that it considered the Company a potentially responsible party. In August 1997, 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 with regard to the site, without admitting liability or accepting responsibility for any future remediation of the site. In conjunction with the consent order, the Company entered into an agreement with the owner of the site providing for a release from liability for property damage and for necessary access to the site, for payments totaling \$400,000. The Company estimates that the cost of conducting the RIFS and implementing the interim remedial measure will be in the range of \$4.1 million to \$4.3 million, \$3.8 million of which the Company has already paid. The Company believes that it has adequately reserved for the costs of conducting the RIFS and implementing the interim remedial measure contemplated by the consent order, but there is no assurance that the consent order will ultimately resolve the matter. The Company is also currently assessing 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 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.

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 this matter. The action seeks a determination that the carriers' defense and indemnity obligations under the policies extend to the site. No discovery has occurred in the action and the Company has indicated its willingness to discuss its settlement with the carriers.

*Whitehall Environmental Matters*

Pursuant to a work plan approved by the Michigan Department of Environmental Quality (MDEQ) the Company has performed sampling and analysis of soil, sediments, surface water, groundwater and waste management areas at the Company's Volunteer Leather Company facility in Whitehall, Michigan.

On June 29, 1999, the Company submitted a remedial action plan (the Plan) for the site to MDEQ and subsequently amended it to include additional upland remediation to bring the property into compliance with regulatory standards for non-industrial uses. The Company, with the approval of MDEQ, had previously installed horizontal wells to capture groundwater from a portion of the site and treat it by air sparging. The Plan proposed continued operation of this system for an indefinite period and monitoring of groundwater samples to ensure that the system is functioning as intended.

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**Note 8**  
**Legal Proceedings, Continued**

The Company has completed further testing in response to MDEQ comments and expects to submit a revised Plan for MDEQ approval. The Company has not yet adopted a revised Plan, which when submitted will be subject to MDEQ comment. Management cannot reasonably estimate the range of costs associated with future remediation of the site or predict whether it will have a material effect on the Company's financial condition or results of operations.

On June 30, 1999, the City of Whitehall filed an action against the Company in the circuit court for the City of Muskegon alleging that the Company's and its predecessors' past wastewater management practices have adversely affected the environment, and seeking injunctive relief under Parts 17 and 201 of the Michigan Natural Resources Environmental Protection Act ( MNREPA ) to require the Company to correct the alleged pollution, primarily lake sediment contamination. Further, the City alleged violations of City ordinances prohibiting blight and litter, and that the Whitehall Volunteer Leather plant constitutes a public nuisance. The Company, the City of Whitehall and MDEQ settled their disagreement over lake sediments for a lump sum payment of \$3.35 million by the Company in the first quarter of Fiscal 2003. In connection with the settlement, the City's lawsuit has been dismissed with prejudice.

*Patent Actions*

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. The Company has filed an answer denying plaintiffs' claims and a motion to dismiss at least a portion of the claims and intends to defend the matter vigorously.

In March 2002, the Company was named a defendant in *Lemelson Medical, Education & Research Foundation Limited Partnership v. Federal Express Corporation, et al.*, in the U. S. District Court for the District of Arizona. The case is one of a number of similar cases alleging patent infringement against users of bar code technology. The case was stayed prior to any discovery pending the outcome of suits in other jurisdictions which challenge the validity of the subject patents. The complaint seeks injunctive relief and unspecified damages. The Company intends to defend the matter vigorously if the outcome of the other suits does not result in its dismissal.

*SEC Matter*

The Company discovered, investigated, publicly announced and self-reported to the Securities and Exchange Commission in December 2001 certain accounting errors relating to the timing of certain shipments of Johnston & Murphy products in fiscal year 2001. By letter dated March 4, 2003, the staff of the Commission advised the Company that it intended to recommend that the Commission institute a cease and desist proceeding against the Company under the periodic reporting, books and records and internal control provisions of the Securities Exchange Act of 1934 in connection with the errors. The staff's stated recommendations with respect to the Company do not include the imposition of monetary fines against the Company or any restatement of previously announced results. The Company has cooperated with the Commission's investigation and continues to cooperate while it seeks to resolve the matter. The Company believes the resolution of this matter will not have a material adverse impact on the Company.



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**Note 9****Business Segment Information**

The Company currently operates four reportable business segments (not including corporate): Journeys, comprised of Journeys and Journeys Kidz retail footwear operations; Underground Station/Jarman Group, comprised of the Underground Station and Jarman retail footwear operations; Johnston & Murphy, comprised of Johnston & Murphy retail operations and wholesale distribution; and Dockers Footwear. All the Company's segments sell footwear products at either retail or wholesale.

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 and Underground Station/Jarman Group sell primarily branded products from other companies while Johnston & Murphy and Dockers Footwear 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 does not allocate certain costs to each segment in order to make decisions and assess performance. These costs include corporate overhead, interest expense and interest income.

<b>Three Months Ended May 3, 2003</b>						
<b>In thousands</b>	<b>Journeys</b>	<b>Underground Station/ Jarman Group</b>	<b>Johnston &amp; Murphy</b>	<b>Dockers</b>	<b>Corporate</b>	<b>Consolidated</b>
Sales	\$ 98,715	\$34,573	\$40,216	\$19,620	\$ 53	\$193,177
Intercompany sales	-0-	-0-	0	431)	-0-	431)
<b>Net sales to external customers</b>	<b>98,715</b>	<b>34,573</b>	<b>40,216</b>	<b>19,189</b>	<b>53</b>	<b>192,746</b>
Segment operating income (loss)	5,563	1,560	1,800	2,553	(4,037)	7,439
Other	-0-	-0-	-0-	-0-	-0-	-0-
Earnings from operations	5,563	1,560	1,800	2,553	(4,037)	7,439
Interest expense	-0-	-0-	-0-	-0-	(2,206)	(2,206)
Interest income	-0-	-0-	-0-	-0-	174	174
<b>Earnings before income taxes</b>	<b>5,563</b>	<b>1,560</b>	<b>1,800</b>	<b>2,553</b>	<b>(6,069)</b>	<b>5,407</b>
Total assets	134,605	47,274	63,910	25,870	144,325	415,984
Depreciation	2,412	804	623	34	1,236	5,109
Capital expenditures	2,290	1,213	612	4	528	4,647

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**Genesco Inc.**  
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**Note 9**  
**Business Segment Information, Continued**

Three Months Ended May 4, 2002		Underground Station/ Jarman Group	Johnston & Murphy	Dockers	Corporate	Consolidated
In thousands	Journeys					
Sales	\$ 91,474	\$ 33,199	\$ 42,365	\$ 24,390	\$ -0-	\$ 191,428
Intercompany sales	-0-	-0-	-0-	(835)	-0-	(835)
<b>Net sales to external customers</b>	<b>91,474</b>	<b>33,199</b>	<b>42,365</b>	<b>23,555</b>	<b>-0-</b>	<b>190,593</b>
Segment operating income (loss)	8,203	2,650	4,107	2,787	(2,825)	14,922
Other	-0-	-0-	-0-	-0-	-0-	-0-
Earnings from operations	8,203	2,650	4,107	2,787	(2,825)	14,922
Interest expense	-0-	-0-	-0-	-0-	(1,965)	(1,965)
Interest income	-0-	-0-	-0-	-0-	293	293
<b>Earnings before income taxes</b>	<b>8,203</b>	<b>2,650</b>	<b>4,107</b>	<b>2,787</b>	<b>(4,497)</b>	<b>13,250</b>
Total assets	126,385	44,105	62,987	22,591	120,908	376,976
Depreciation	2,083	759	776	34	710	4,362
Capital expenditures	5,949	813	242	9	10,350	17,363

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

This discussion and the notes to the Consolidated Financial Statements include certain forward-looking statements, which include all statements not made solely with respect to historical fact and those regarding our intent, belief or expectations. 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 future results, liquidity and capital resources. These factors include:

Lower than expected consumer demand for the Company's products, whether caused by weakness in the overall economy or by changes in fashions or tastes that the Company fails to anticipate or respond to appropriately.

Changes in demand or buying patterns by significant wholesale customers.

Disruptions in product supply or distribution, including those related to our reliance on foreign sources of product and to the transition to a new distribution center, and costs associated with those factors.

Further unfavorable trends in foreign currency exchange rates or other factors increasing the cost of goods sold.

Disruptions from a planned transition to a new wholesale merchandising system.

The inability to adjust inventory levels to sales.

Changes in business strategies by the Company's competitors (including pricing and promotional discounts).

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

Unfavorable variations from planned pension expense levels.

The outcome of litigation and environmental matters involving the Company, including those discussed in Note 8 to the Consolidated Financial Statements.

Forward-looking statements reflect the expectations of the Company at the time they are made, and investors should rely on them only as expressions of opinion about what may happen in the future and only at the time they are made. The Company undertakes no obligation to update any forward-looking statement. Although the Company believes it has an appropriate business strategy and the resources necessary for its operations, predictions about future revenue and margin trends are inherently unreliable and the Company may alter its business strategies to address changing conditions.

**Significant Developments**

*Impairment and Other Charges*

The Company recorded a pretax charge to earnings of \$2.5 million (\$1.6 million net of tax) in the fourth quarter of Fiscal 2003. The charge includes \$2.4 million in asset impairments related to 14 underperforming retail stores identified as suitable for closing if acceptable lease terminations can be negotiated, the payments related to the termination of one of those leases, and \$0.1 million in severance payments. The majority of these items relate to the Johnston & Murphy division. See Notes 2 and 6 to the Consolidated Financial Statements.

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**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, 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 \$0.8 million at May 3, 2003.

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.

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*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 8 to the Company's Consolidated Financial Statements. The Company has made accruals for certain of these contingencies, including \$0.3 million reflected in Fiscal 2003 and \$2.0 million reflected in Fiscal 2002. 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 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. 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 Statement of Financial Accounting Standards No. 87, Employer's Accounting for Pensions ( SFAS 87 ). Under SFAS 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.

**Long Term Rate of Return Assumption** Pension expense increases as the expected rate of return on pension plan assets decreases. For Fiscal 2003, the Company estimated that the pension plan assets would generate a long-term rate of return of 8.5%. This rate is developed by evaluating input from consultants and economists as well as long-term inflation assumptions. The Company regularly reviews the actual asset allocation and periodically rebalances investments as considered appropriate. For Fiscal 2003, if the expected rate of return had been decreased by 1%, net pension expense would have increased by \$1.0 million, and if the expected rate of return had been increased by 1%, net pension expense would have decreased by \$1.0

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million. The Company has reduced its long-term rate of return from 8.5% to 8.25% for Fiscal 2004.

**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 6.625%, 7.375% and 7.875% for Fiscal 2003, 2002 and 2001, respectively. The discount rate is determined based on the current rates earned on high quality long-term bonds. For Fiscal 2003, if the discount rate had been increased by 0.5%, net pension expense would have decreased by \$0.9 million, and if the discount rate had been decreased by 0.5%, net pension expense would have increased by \$0.9 million. In addition, if the discount rate had been increased by 0.5%, the accumulated benefit obligation would have decreased by \$5.2 million. If the discount rate had been decreased by 0.5%, the accumulated benefit obligation would have been increased by \$5.7 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. For Fiscal 2003, the Company had unrecognized actuarial losses of \$54 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 (7) 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 \$1.3 million, \$1.1 million and \$0.3 million in Fiscal 2003, 2002 and 2001, respectively. Our pension expense is expected to increase in Fiscal 2004 by approximately \$3.0 million for a number of reasons, including a reduction in the long-term rate of return assumption from 8.5% to 8.25% and the recognition of approximately \$3.0 million of actuarial losses. Because of actuarial losses, pension expense is expected to increase approximately an additional \$1.0 million in Fiscal 2005 exclusive of any impact from changes in interest rates or pension asset returns.

**Business Segments**

The Company currently operates four reportable business segments (not including the corporate segment): Journeys, comprised of the Journeys and Journeys Kidz retail footwear operations; Underground Station/Jarman Group, comprised of the Underground Station and Jarman retail footwear operations; Johnston & Murphy, comprised of Johnston & Murphy retail operations and wholesale distribution; and Dockers Footwear.

**Table of Contents****Results of Operations First Quarter Fiscal 2004 Compared to Fiscal 2003**

The Company's net sales in the first quarter ended May 3, 2003 increased 1.1% to \$192.7 million from \$190.6 million in the first quarter ended May 4, 2002. Gross margin decreased 2.3% to \$88.1 million in the first quarter this year from \$90.1 million in the same period last year and decreased as a percentage of net sales from 47.3% to 45.7%. Selling and administrative expenses in the first quarter this year increased 7.2% from the first quarter last year and increased as a percentage of net sales from 39.5% to 41.8%. The Company records buying, merchandising and occupancy costs in selling and administrative expense. Because the Company does not include these costs in cost of sales, the Company's gross margin may not be comparable to other retailers that include these costs in the calculation of gross margin. Explanations of the changes in results of operations are provided by business segment in discussions following these introductory paragraphs.

Pretax earnings for the first quarter ended May 3, 2003 were \$5.4 million compared to \$13.3 million for the first quarter ended May 4, 2002.

Net earnings for the first quarter ended May 3, 2003 were \$3.3 million (\$0.15 diluted earnings per share) compared to \$8.2 million (\$0.33 diluted earnings per share) for the first quarter ended May 4, 2002. The Company recorded an effective income tax rate of 38.3% in the first quarter this year compared to 38.1% in the same period last year.

*Journeys*

	<b>Three Months Ended</b>		
	<b>May 3, 2003</b>	<b>May 4, 2002</b>	<b>% Change</b>
	(dollars in thousands)		
Net sales	\$98,715	\$91,474	7.9%
Operating income	\$ 5,563	\$ 8,203	(32.2)%
Operating margin	5.6%	9.0%	

Reflecting primarily a 14% increase in average Journeys stores operated (i.e., the sum of the number of stores open on the first day of the fiscal quarter and the last day of each fiscal month during the quarter divided by four) offset by a 3% decrease in comparable store sales, net sales from Journeys increased 7.9% for the first quarter ended May 3, 2003 compared to the same period last year. The average price per pair of shoes decreased 3% in the first quarter of Fiscal 2004, reflecting increased markdowns and changes in product mix, while unit sales increased 9% during the same period. Journeys operated 631 stores at the end of the first quarter of Fiscal 2004, including 37 Journeys Kidz stores, compared to 564 stores at the end of the first quarter last year, including 21 Journeys Kidz stores.

Journeys operating income for the first quarter ended May 3, 2003 was down 32.2% to \$5.6 million compared to \$8.2 million for the first quarter ended May 4, 2002. The decrease was due to decreased gross margin as a percentage of net sales, primarily reflecting increased markdowns, and

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to increased expenses as a percentage of net sales.

*Underground Station/Jarman Group*

	Three Months Ended		
	May 3, 2003	May 4, 2002	% Change
(dollars in thousands)			
Net sales	\$34,573	\$33,199	4.1%
Operating income	\$ 1,560	\$ 2,650	(41.1)%
Operating margin	4.5%	8.0%	

Reflecting primarily a 3% increase in average stores operated, net sales from the Underground Station/Jarman Group increased 4.1% for the first quarter ended May 3, 2003 compared to the same period past year. Comparable store sales were down 2% for the Underground Station/Jarman Group, but comparable store sales for Underground Station were up 7%. The average price per pair of shoes decreased 4% in the first quarter of Fiscal 2004, primarily reflecting increased markdowns and changes in product mix, while unit sales increased 5% during the same period. Underground Station/Jarman Group operated 236 stores at the end of the first quarter of Fiscal 2004, including 122 Underground Station stores. The Underground Station/Jarman Group had operated 228 stores at the end of the first quarter last year, including 102 Underground Station stores.

Underground Station/Jarman Group operating income for the first quarter ended May 3, 2003 was \$1.6 million compared to \$2.7 million for the first quarter ended May 4, 2002. The decrease was due to decreased gross margin as a percentage of net sales, primarily reflecting increased markdowns, and increased expenses as a percentage of net sales.

*Johnston & Murphy*

	Three Months Ended		
	May 3, 2003	May 4, 2002	% Change
(dollars in thousands)			
Net sales	\$40,216	\$42,365	(5.1)%
Operating income	\$ 1,800	\$ 4,107	(56.2)%
Operating margin	4.5%	9.7%	

Johnston & Murphy net sales decreased 5.1% to \$40.2 million for the first quarter ended May 3, 2003 from \$42.4 million for the first quarter ended May 4, 2002, reflecting primarily a 7% decrease in comparable store sales for Johnston & Murphy retail operations. Johnston & Murphy wholesale sales decreased 3% for the first quarter ended May 3, 2003. Retail operations accounted for 67.3% of Johnston & Murphy segment sales in the first quarter this year, down from 67.9% in the first quarter last year. The average price per pair of shoes for Johnston & Murphy retail decreased 2% in the first quarter this year, primarily due to increased markdowns and changes in product mix, and unit sales decreased 4% during the same period. Unit sales for the Johnston & Murphy wholesale business decreased 2% in the first quarter of Fiscal 2004 while the average price per pair of shoes was flat for the same period. The store count for Johnston & Murphy retail operations at the end of



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the first quarter of Fiscal 2004 included 150 Johnston & Murphy stores and factory stores compared to 148 Johnston & Murphy stores and factory stores at the end of the first quarter of Fiscal 2003.

Johnston & Murphy operating income for the first quarter ended May 3, 2003 decreased 56.2% compared to the same period last year, primarily due to decreased gross margin as a percentage of net sales, reflecting increased markdowns and increased cost of products from the appreciation of the Euro, and increased expenses as a percentage of net sales.

*Dockers*

	<b>Three Months Ended</b>		
	<b>May 3, 2003</b>	<b>May 4, 2002</b>	<b>% Change</b>
	<b>(dollars in thousands)</b>		
Net sales	\$ 19,189	\$ 23,555	(18.5)%
Operating income	\$ 2,553	\$ 2,787	(8.4)%
Operating margin	13.3%	11.8%	

Dockers net sales decreased 18.5% to \$19.2 million for the first quarter ended May 3, 2003, from \$23.6 million for the first quarter ended May 4, 2002. The sales decrease reflected lower levels of at once orders. Factors reflected in the sales decline included retailers' response to the retail environment, fewer close-out shipments than last year, a decline in sales to a formerly significant department store account reflecting a strategic change in its product offering and a shift in the annual initial shipment of seasonal product to a major volume moderate account that occurred during the quarter last year to the previous quarter this year. Unit sales for Dockers decreased 17% for the first quarter this year and the average price per pair of shoes decreased 3% for the same period reflecting changes in sales mix.

Dockers operating income for the first quarter ended May 3, 2003 decreased 8.4% from \$2.8 million for the first quarter ended May 4, 2002 to \$2.6 million, primarily due to decreased sales and increased expenses as a percentage of net sales.

*Corporate and Interest Expenses*

Corporate and other expenses for the first quarter ended May 3, 2003 were \$4.0 million compared to \$2.8 million for the first quarter ended May 4, 2002 for an increase of 42.9%. The increase in corporate expenses in the first quarter this year is attributable primarily to increased expenses related to the Company's new distribution center, which began operations in the second quarter of Fiscal 2003.

Interest expense increased 12.3% from \$2.0 million in the first quarter ended May 4, 2002 to \$2.2 million for the first quarter ended May 3, 2003, primarily due to capitalized interest of \$0.3 million in the first quarter last year for the Company's new distribution center. See Note 1 to the Consolidated Financial Statements.

Interest income decreased 40.6% from \$0.3 million in the first quarter last year to \$0.2 million in the first quarter this year due to decreases in interest rates. There were no borrowings under the Company's revolving credit facility during the three months ended May 3, 2003 or May 4, 2002.

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

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

	<b>May 3, 2003</b>	<b>May 4, 2002</b>
	<b>(dollars in millions)</b>	
Cash and cash equivalents	\$ 57.7	\$ 44.3
Working capital	\$ 186.7	\$ 159.4
Long-term debt (includes current maturities)	\$ 103.2	\$ 103.2

*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.

The Company has revised its Statement of Cash Flows to separately present the increases (decreases) in bank overdraft balances as a financing activity. Increases (decreases) in bank overdraft balances had previously been included in changes in accounts payable and accrued liabilities and included in net cash provided by operating activities. As a result of this reclassification, net cash provided by operating activities increased \$7.3 million and \$1.9 million in the three month periods ended May 3, 2003 and May 4, 2002, respectively. Net cash used in financing activities decreased \$7.3 million and \$1.9 million in the three month periods ended May 3, 2003 and May 4, 2002, respectively. As a result of this reclassification, there was no change to net cash flow for the three month periods ended May 3, 2003 or May 4, 2003.

Cash provided by operating activities was \$13.6 million in the first three months of Fiscal 2004 compared to \$16.3 million in the first three months of Fiscal 2003. The \$2.7 million decrease in cash flow from operating activities reflects primarily a \$4.9 million decrease in earnings and an \$8.7 million reduction in cash flow from changes in accounts payable primarily due to changes in buying patterns offset by an increase in cash flow from changes in inventory and accounts receivable of \$5.4 million and \$2.5 million, respectively. The \$5.4 million improvement in cash flow from inventory was due to slower growth in our retail inventory and a bigger reduction in the wholesale inventory as the Company tried to more closely align its inventories with sales growth. The \$2.5 million improvement in cash flow from accounts receivable was due to the lower wholesale sales.

The \$4.9 million decrease in inventories at May 3, 2003 from February 1, 2003 levels reflects primarily decreases in Dockers and Johnston & Murphy wholesale inventories due to seasonal shipments offset by seasonal increases in retail inventory and inventory purchased to support the net increase of 26 stores in the first quarter this year.

Accounts receivable at May 3, 2003 increased \$0.2 million compared to February 1, 2003 primarily due to increased days sales outstanding.

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

	Three Months Ended	
	May 3, 2003	May 4, 2002
	(in thousands)	
Accounts payable	\$ 5,358	\$ 14,025
Accrued liabilities	(5,672)	(7,461)
	<u>\$ (314)</u>	<u>\$ 6,564</u>

The fluctuations in cash provided due to changes in accounts payable for the first quarter this year from the first quarter last year are due to changes in buying patterns, inventory levels and payment terms negotiated with individual vendors. The change in cash used for changes in accrued liabilities for the first quarter this year from the first quarter last year was due primarily to higher incentive compensation payments, higher payments associated with the new distribution center and higher payments associated with prior restructurings and discontinued operations in the prior year.

There were no revolving credit borrowings during the first three months ended May 3, 2003 and May 4, 2002, as cash generated from operations and cash on hand funded seasonal working capital requirements and capital expenditures. On July 16, 2001, the Company entered into a revolving credit agreement with five banks, providing for loans or letters of credit of up to \$75.0 million. The agreement, as amended September 6, 2001, expires July 16, 2004.

*Capital Expenditures*

Total capital expenditures in Fiscal 2004 are expected to be approximately \$22.5 million. These include expected retail capital expenditures of \$18.1 million to open approximately 50 Journeys stores, 4 Journeys Kidz stores, 6 Johnston & Murphy stores and factory stores and 25 Underground Station stores and to complete 25 major store renovations, including five conversions of Jarman stores to Underground Station stores. The amount of capital expenditures in Fiscal 2004 for wholesale operations and other purposes are expected to be approximately \$4.4 million, including approximately \$1.8 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 2004. The Company may borrow under its credit facility from time to time, particularly in the fall, to support seasonal working capital requirements. The approximately \$1.7 million of costs associated with the prior restructurings and discontinued operations that are expected to be incurred during the next twelve months are also expected to be funded from cash on hand. Additionally, the Company may from time to time consider proposals to refinance or retire the outstanding subordinated convertible notes prior to their final maturity date in April 2005 which could involve the use of some cash on hand.

In August 2002, the Company's board of directors authorized the repurchase, from time to time, of up to 300,000 shares of the Company's common stock. There are 512,600 shares remaining to be repurchased under this and prior authorizations as of May 3, 2003. Any purchases would be funded

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from available cash. The Company has repurchased a total of 7.0 million shares at a cost of \$69.4 million under a series of authorizations since Fiscal 1999. The Company repurchased 2,500 shares during the first quarter this year at a cost of \$31,000.

There were \$10.0 million of letters of credit outstanding under the revolving credit agreement at May 3, 2003, leaving availability under the revolving credit agreement of \$65.0 million. The revolving credit agreement requires the Company to meet certain financial ratios and covenants, including minimum tangible net worth, fixed charge coverage and debt to EBITDAR ratios. The Company was in compliance with these financial covenants at May 3, 2003.

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 May 3, 2003, \$36.6 million was available for such payments related to common stock. 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 \$294,000.

## **Environmental and Other Contingencies**

The Company is subject to certain loss contingencies related to environmental proceedings and other legal matters, including those disclosed in Note 8 to the Company's Consolidated Financial Statements. The Company has made accruals for certain of these contingencies, including approximately \$0.3 million reflected in Fiscal 2003 and \$2.0 million reflected in Fiscal 2002. 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 \$103.2 million 5 1/2% convertible subordinated notes due April 2005 bears interest at a fixed rate. Accordingly, there would be no immediate impact on the Company's interest expense due to fluctuations in market interest rates.

**Cash and Cash Equivalents** The Company's cash and cash equivalent balances are invested in financial instruments with original maturities of three months or less. The Company does not have

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significant exposure to changing interest rates on invested cash at May 3, 2003. As a result, the Company considers the interest rate market risk implicit in these investments at May 3, 2003 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 May 3, 2003, the Company had \$20.8 million of forward foreign exchange contracts for Euro. The Company's policy is not to speculate in derivative instruments for profit on the exchange rate price fluctuation and it does not hold any derivative instruments for trading purposes. Derivative instruments used as hedges must be effective at reducing the risk associated with the exposure being hedged and must be designated as a hedge at the inception of the contract. The unrealized gain on contracts outstanding at May 3, 2003 was \$1.0 million based on current spot rates. As of May 3, 2003, a 10% adverse change in foreign currency exchange rates from market rates would decrease the fair value of the contracts by approximately \$1.6 million.

Because of the rapid appreciation in the value of the Euro relative to the dollar and the limitations of the Company's foreign currency hedging policy, the Company anticipates that product costs in the Johnston & Murphy division will increase in Fiscal 2004 as compared to the previous year. Based on anticipated demand for the year and assuming an average exchange rate for the year near levels for the first fiscal quarter, the Company estimates these increases will have an adverse effect on its pretax earnings for the year in the range of \$5.0 to \$6.0 million. The effect could be greater or less if either or both demand varies from expectations or exchange rates fluctuate.

**Accounts Receivable** The Company's accounts receivable balance at May 3, 2003 is concentrated in its two remaining wholesale businesses, which sell primarily to department stores and independent retailers across the United States. One customer accounted for 17.7% and another customer accounted for 14.5% of the Company's trade accounts receivable balance as of May 3, 2003. 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.

**Summary** Based on the Company's overall market interest rate and foreign currency rate exposure at May 3, 2003, 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 2004 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 2004.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

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

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**Item 4. Controls and Procedures**

- (a) Evaluation of disclosure controls and procedures. The Company's principal executive officer and its principal financial officer, after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-14(c) and 15d-14(c)) as of a date within 90 days before the filing date of this report, have concluded that, as of such date, the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its consolidated subsidiaries required to be disclosed in the reports the Company files under the Exchange Act was timely made known to them by others within those entities.
- (b) Changes in internal controls. There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, nor were there any significant deficiencies or material weaknesses in the Company's internal controls. As a result, no corrective actions were required or undertaken.

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**PART II OTHER INFORMATION**

**Item 6. Exhibits and Reports on Form 8-K**

**Exhibits**

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

**Reports on Form 8-K**

The Company furnished to the SEC current reports on Form 8-K on February 7, 2003, March 4, 2003, March 28, 2003 and April 30, 2003 containing Regulation FD disclosures under Item 9.

Information furnished under Item 9 of our current reports on Form 8-K, including the related exhibits, is not incorporated by reference in this Quarterly Report on Form 10-Q.

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**SIGNATURE**

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

Genesco Inc.

/s/ James S. Gulmi

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James S. Gulmi  
Chief Financial Officer

December 23, 2003