

FOOT LOCKER INC  
Form 10-Q  
June 06, 2012

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**DRAFT May 31, 2012**

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
R 1934**

**For the quarterly period ended: April 28, 2012**

**..TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 1-10299**

**FOOT LOCKER, INC.**

(Exact Name of Registrant as Specified in its Charter)

**New York**

**13-3513936**

(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)

**112 West 34<sup>th</sup> Street, New York, New York, 10120**

(Address of Principal Executive Offices, Zip Code)

**(212-720-3700)**

(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

Number of shares of Common Stock outstanding at May 25, 2012: 151,575,775.



FOOT LOCKER, INC.

TABLE OF CONTENTS

|   | Page |
|---|------|
| Part I. Financial Information   |      |
| Item 1. Financial Statements  |      |
| Condensed Consolidated Balance Sheets   | 3    |
| Condensed Consolidated Statements of Operations   | 4    |
| Condensed Consolidated Statements of Comprehensive Income                                     | 5    |
| Condensed Consolidated Statements of Cash Flows   | 6    |
| Notes to Condensed Consolidated Financial Statements  | 7    |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 16   |
| Item 4. Controls and Procedures   | 22   |
| Part II. Other Information  |      |
| Item 1. Legal Proceedings   | 22   |
| Item 1A. Risk Factors   | 23   |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds                           | 23   |
| Item 6. Exhibits  | 23   |
| Signature   | 24   |
| Index of Exhibits   | 25   |

PART I - FINANCIAL INFORMATIONItem 1. Financial StatementsFOOT LOCKER, INC.CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except shares)

|  | April 28,<br>2012<br>(Unaudited) | April 30,<br>2011<br>(Unaudited) | January<br>28,<br>2012<br>* |
|--|----------------------------------|----------------------------------|-----------------------------|
| <b>ASSETS</b>  |                                  |                                  |                             |
| Current assets   |                                  |                                  |                             |
| Cash and cash equivalents  | \$ 859                           | \$ 799                           | \$851                       |
| Short-term investments   | 50                               | —                                | —                           |
| Merchandise inventories  | 1,146                            | 1,159                            | 1,069                       |
| Other current assets   | 196                              | 182                              | 159                         |
|  | 2,251                            | 2,140                            | 2,079                       |
| Property and equipment, net  | 438                              | 400                              | 427                         |
| Deferred taxes   | 288                              | 297                              | 284                         |
| Goodwill   | 144                              | 146                              | 144                         |
| Other intangibles and other assets   | 117                              | 137                              | 116                         |
|  | \$ 3,238                         | \$ 3,120                         | \$3,050                     |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                                  |                                  |                             |
| Current liabilities  |                                  |                                  |                             |
| Accounts payable   | \$ 357                           | \$ 346                           | \$240                       |
| Accrued expenses and other current liabilities   | 278                              | 260                              | 308                         |
|  | 635                              | 606                              | 548                         |
| Long-term debt   | 135                              | 136                              | 135                         |
| Other liabilities  | 255                              | 244                              | 257                         |
|  | 1,025                            | 986                              | 940                         |
| Shareholders' equity   |                                  |                                  |                             |
| Common stock and paid-in capital: 165,475,168, 163,154,151, and 164,460,073 shares, respectively | 807                              | 746                              | 779                         |
| Retained earnings  | 1,888                            | 1,680                            | 1,788                       |
| Accumulated other comprehensive loss   | (196 )                           | (107 )                           | (204 )                      |
|  | (286 )                           | (185 )                           | (253 )                      |

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Less: Treasury stock at cost: 13,936,123, 9,707,754, and  
12,841,961 shares, respectively

|                            |          |          |         |
|----------------------------|----------|----------|---------|
| Total shareholders' equity | 2,213    | 2,134    | 2,110   |
|                            | \$ 3,238 | \$ 3,120 | \$3,050 |

See Accompanying Notes to Condensed Consolidated Financial Statements.

\* The balance sheet at January 28, 2012 has been derived from the previously reported audited financial statements at that date, but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended January 28, 2012.

FOOT LOCKER, INC.CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in millions, except per share amounts)

|  | Thirteen weeks<br>ended |                      |
|--|-------------------------|----------------------|
|  | April<br>28,<br>2012    | April<br>30,<br>2011 |
| Sales  | \$1,578                 | \$1,452              |
| Cost of sales                                    | 1,041                   | 977                  |
| Selling, general and administrative expenses     | 306                     | 298                  |
| Depreciation and amortization                    | 29                      | 27                   |
| Interest expense, net                            | 1                       | 2                    |
| Other income, net                                | —                       | (1 )                 |
|  | 1,377                   | 1,303                |
| Income before income taxes                       | 201                     | 149                  |
| Income tax expense                               | 73                      | 55                   |
| Net income                                       | \$128                   | \$94                 |
| Basic earnings per share:                        |                         |                      |
| Net income                                       | \$0.84                  | \$0.61               |
| Weighted-average common shares outstanding       | 151.8                   | 154.4                |
| Diluted earnings per share:                      |                         |                      |
| Net income                                       | \$0.83                  | \$0.60               |
| Weighted-average common shares assuming dilution | 154.3                   | 155.7                |

See Accompanying Notes to Condensed Consolidated Financial Statements.

FOOT LOCKER, INC.CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(in millions)

|   | Thirteen<br>weeks<br>ended |                      |
|---|----------------------------|----------------------|
|   | April<br>28,<br>2012       | April<br>30,<br>2011 |
| Net income  | \$128                      | \$94                 |
| Other comprehensive income  |                            |                      |
| Foreign currency translation adjustment:  |                            |                      |
| Translation adjustment arising during the period, net of tax  | 7                          | 61                   |
| Cash flow hedges:   |                            |                      |
| Change in fair value of derivatives, net of income tax  | —                          | 1                    |
| Pension and postretirement adjustments:   |                            |                      |
| Amortization of net actuarial gain/loss and prior service cost included in net periodic benefit costs, net of income tax expense of \$1 and \$1 million, respectively | 2                          | 1                    |
| Comprehensive income  | \$137                      | \$157                |

See Accompanying Notes to Condensed Consolidated Financial Statements.



FOOT LOCKER, INC.CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in millions)

|   | Thirteen weeks ended |                   |
|---|----------------------|-------------------|
|   | April 28,<br>2012    | April 30,<br>2011 |
| From Operating Activities:  |                      |                   |
| Net income  | \$ 128               | \$ 94             |
| Adjustments to reconcile net income to net cash provided by operating activities: |                      |                   |
| Depreciation and amortization   | 29                   | 27                |
| Share-based compensation expense  | 6                    | 4                 |
| Qualified pension plan contributions  | —                    | (1 )              |
| Excess tax benefits on share-based compensation                                   | (5 )                 | (1 )              |
| Change in assets and liabilities:   |                      |                   |
| Merchandise inventories   | (74 )                | (80 )             |
| Accounts payable  | 116                  | 117               |
| Other accruals  | (29 )                | (13 )             |
| Other, net  | (38 )                | 7                 |
| Net cash provided by operating activities   | 133                  | 154               |
| From Investing Activities:  |                      |                   |
| Purchases of short-term investments   | (50 )                | —                 |
| Capital expenditures  | (39 )                | (29 )             |
| Net cash used in investing activities   | (89 )                | (29 )             |
| From Financing Activities:  |                      |                   |
| Purchase of treasury shares   | (27 )                | (30 )             |
| Issuance of common stock  | 14                   | 3                 |
| Dividends paid  | (28 )                | (25 )             |
| Excess tax benefits on share-based compensation                                   | 5                    | 1                 |
| Net cash used in financing activities   | (36 )                | (51 )             |
| Effect of exchange rate fluctuations on Cash and Cash Equivalents                 | —                    | 29                |
| Net change in Cash and Cash Equivalents   | 8                    | 103               |
| Cash and Cash Equivalents at beginning of year                                    | 851                  | 696               |
| Cash and Cash Equivalents at end of interim period                                | \$ 859               | \$ 799            |
| Cash paid during the period:  |                      |                   |
| Interest  | \$ —                 | \$ —              |

|              |       |       |
|--------------|-------|-------|
| Income taxes | \$ 80 | \$ 56 |
|--------------|-------|-------|

See Accompanying Notes to Condensed Consolidated Financial Statements.

6

FOOT LOCKER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**1. Summary of Significant Accounting Policies**

*Basis of Presentation*

The accompanying condensed consolidated financial statements contained in this report are unaudited. In the opinion of management, the condensed consolidated financial statements include all adjustments, which are of a normal recurring nature, necessary for a fair presentation of the results for the interim periods of the fiscal year ending February 2, 2013 and of the fiscal year ended January 28, 2012. Certain items included in these statements are based on management's estimates. Actual results may differ from those estimates. The results of operations for any interim period are not necessarily indicative of the results expected for the year. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Notes to Consolidated Financial Statements contained in the Company's Form 10-K for the year ended January 28, 2012, as filed with the Securities and Exchange Commission (the "SEC") on March 26, 2012.

*Recent Accounting Pronouncements*

During the first quarter of 2012, the Company adopted ASU No. 2011-08, *Testing Goodwill for Impairment*. The revised standard is intended to reduce the cost and complexity of the annual goodwill impairment test by providing entities an option to perform a qualitative assessment to determine whether further impairment testing is necessary. The adoption of this ASU did not have a significant effect on our results of operations or financial position.

During the first quarter of 2012, the Company also adopted ASU No. 2011-05, *Presentation of Comprehensive Income*, which requires presentation of total comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The implementation of the amended reporting guidance had no effect on our disclosures.

Other recently issued accounting pronouncements did not, or are not believed by management to, have a material effect on the Company's present or future consolidated financial statements.

## **2. Segment Information**

The Company has determined that its reportable segments are those that are based on its method of internal reporting. As of April 28, 2012, the Company has two reportable segments, Athletic Stores and Direct-to-Customers. Sales and division results for the Company's reportable segments for the thirteen weeks ended April 28, 2012 and April 30, 2011 are presented below. Division profit reflects income before income taxes, corporate expense, net interest expense, and net non-operating income.

### **Sales**

|                      | Thirteen weeks ended |                |
|----------------------|----------------------|----------------|
|                      | April 28, 2012       | April 30, 2011 |
| <b>(in millions)</b> |                      |                |
| Athletic Stores      | \$1,437              | \$1,331        |
| Direct-to-Customers  | 141                  | 121            |
| Total sales          | \$1,578              | \$1,452        |

FOOT LOCKER, INC.NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**2. Segment Information - (continued)****Operating Results**

| (in millions)                       | Thirteen weeks ended |                   |
|-------------------------------------|----------------------|-------------------|
|                                     | April 28,<br>2012    | April 30,<br>2011 |
| Athletic Stores                     | \$ 207               | \$ 162            |
| Direct-to-Customers                 | 18                   | 13                |
| Restructuring charge <sup>(1)</sup> | —                    | (1 )              |
| Division profit                     | 225                  | 174               |
| Less: Corporate expense, net        | 23                   | 24                |
| Operating profit                    | 202                  | 150               |
| Interest expense, net               | 1                    | 2                 |
| Other income <sup>(2)</sup>         | —                    | 1                 |
| Income before income taxes          | \$ 201               | \$ 149            |

During 2011, the Company increased its 1993 Repositioning and 1991 Restructuring reserve by \$1 million for (1) repairs necessary to one of the locations comprising this reserve. This amount is included in selling, general and administrative expenses in the Condensed Consolidated Statement of Operations.

Other income includes non-operating items, such as gains from insurance recoveries, gains on the repurchase and retirement of bonds, royalty income, the changes in fair value, premiums paid and realized gains associated with (2) foreign currency option contracts. The amount for the thirteen weeks ended April 30, 2011 primarily represents a lease termination gain related to the sale of a leasehold interest in Europe and royalty income from the Company's franchise operations.

**3. Goodwill and Other Intangible Assets**

Annually during the first quarter, or more frequently if impairment indicators arise, the Company reviews goodwill and intangible assets with indefinite lives for impairment. The annual review of goodwill and assets with indefinite lives performed during the first quarters of 2012 and 2011 did not result in impairment charges. The fair value of each

of the reporting units substantially exceeds its carrying value for both periods. The following table provides a summary of goodwill by reportable segment. The change represents foreign exchange fluctuations.

|                        | April<br>28,<br>2012 | April<br>30,<br>2011 | January<br>28,<br>2012 |
|------------------------|----------------------|----------------------|------------------------|
| Goodwill (in millions) | \$17                 | \$19                 | \$ 17                  |
| Athletic Stores        | 127                  | 127                  | 127                    |
| Direct-to-Customers    | \$144                | \$146                | \$ 144                 |

FOOT LOCKER, INC.NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**3. Goodwill and Other Intangible Assets - (continued)**

The components of finite-lived intangible assets and intangible assets not subject to amortization are as follows:

| (in millions)                       | April 28, 2012 |               |           | April 30, 2011 |               |           | January 28, 2012 |               |           |
|-------------------------------------|----------------|---------------|-----------|----------------|---------------|-----------|------------------|---------------|-----------|
|                                     | Gross value    | Accum. amort. | Net value | Gross value    | Accum. amort. | Net Value | Gross value      | Accum. amort. | Net value |
| Amortized intangible assets:        |                |               |           |                |               |           |                  |               |           |
| Lease acquisition costs             | \$ 161         | \$ (139 )     | \$ 22     | \$ 190         | \$ (160 )     | \$ 30     | \$ 171           | \$ (149 )     | \$ 22     |
| Trademarks                          | 21             | (9 )          | 12        | 21             | (8 )          | 13        | 21               | (8 )          | 13        |
| Favorable leases                    | 7              | (7 )          | —         | 9              | (8 )          | 1         | 7                | (7 )          | —         |
| CCS customer relationships          | 21             | (14 )         | 7         | 21             | (10 )         | 11        | 21               | (13 )         | 8         |
|                                     | \$ 210         | \$ (169 )     | \$ 41     | \$ 241         | \$ (186 )     | \$ 55     | \$ 220           | \$ (177 )     | \$ 43     |
| Indefinite life intangible assets:  |                |               |           |                |               |           |                  |               |           |
| Republic of Ireland trademark       |                |               | 1         |                |               | 2         |                  |               | 1         |
| CCS tradename                       |                |               | 10        |                |               | 15        |                  |               | 10        |
|                                     |                |               | \$ 11     |                |               | \$ 17     |                  |               | \$ 11     |
| Net Identifiable intangible assets, |                |               | \$ 52     |                |               | \$ 72     |                  |               | \$ 54     |

For the thirteen-week period ended April 28, 2012, activity included amortization of \$4 million offset by lease acquisition additions of \$1 million and the effect of foreign currency fluctuations, primarily related to the euro, of \$1 million. The lease acquisition additions recorded during the period are being amortized over 10 years.

| (in millions)        | Thirteen weeks ended |                |
|----------------------|----------------------|----------------|
|                      | April 28, 2012       | April 30, 2011 |
| Amortization expense | \$ 4                 | \$ 4           |

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Future expected amortization expense for finite life intangible assets is estimated as follows:

(in millions)

|                      |    |    |
|----------------------|----|----|
| Remainder<br>of 2012 | \$ | 10 |
| 2013                 |    | 9  |
| 2014                 |    | 4  |
| 2015                 |    | 3  |
| 2016                 |    | 2  |
| 2017                 |    | 2  |

9



FOOT LOCKER, INC.NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**4. Accumulated Other Comprehensive Loss**

Accumulated other comprehensive loss comprised the following:

| (in millions)  | April 28,<br>2012 | April 30,<br>2011 | January 28,<br>2012 |
|--|-------------------|-------------------|---------------------|
| Foreign currency translation adjustments             | \$ 70             | \$ 147            | \$ 63               |
| Cash flow hedges                                     | (1 )              | 2                 | (1 )                |
| Unrecognized pension cost and postretirement benefit | (263 )            | (254 )            | (264 )              |
| Unrealized loss on available-for-sale security       | (2 )              | (2 )              | (2 )                |
|  | \$ (196 )         | \$ (107 )         | \$ (204 )           |

**5. Financial Instruments**

The Company operates internationally and utilizes certain derivative financial instruments to mitigate its foreign currency exposures, primarily related to third-party and intercompany forecasted transactions. As a result of the use of derivative instruments, the Company is exposed to the risk that counterparties will fail to meet their contractual obligations. To mitigate this counterparty credit risk, the Company has a policy of entering into contracts only with major financial institutions selected based upon their credit ratings and other financial factors. The Company monitors the creditworthiness of counterparties throughout the duration of the derivative instrument. Additional information is contained within Note 6, *Fair Value Measurements*.

*Derivative Holdings Designated as Hedges*

For a derivative to qualify as a hedge at inception and throughout the hedged period, the Company formally documents the nature of the hedged items and the relationships between the hedging instruments and the hedged items, as well as its risk-management objectives, strategies for undertaking the various hedge transactions, and the methods of assessing hedge effectiveness and hedge ineffectiveness. In addition, for hedges of forecasted transactions,

the significant characteristics and expected terms of a forecasted transaction must be specifically identified, and it must be probable that each forecasted transaction would occur. If it were deemed probable that the forecasted transaction would not occur, the gain or loss on the derivative instrument would be recognized in earnings immediately. No such gains or losses were recognized in earnings for any of the periods presented. Derivative financial instruments qualifying for hedge accounting must maintain a specified level of effectiveness between the hedging instrument and the item being hedged, both at inception and throughout the hedged period, which management evaluates periodically.

The primary currencies to which the Company is exposed are the euro, British pound, Canadian dollar, and Australian dollar. For option and forward foreign exchange contracts designated as cash flow hedges of the purchase of inventory, the effective portion of gains and losses is deferred as a component of Accumulated Other Comprehensive Loss ("AOCL") and is recognized as a component of cost of sales when the related inventory is sold. The amount reclassified to cost of sales related to such contracts was not significant for any of the periods presented. The ineffective portion of gains and losses related to cash flow hedges recorded to earnings was also not significant for any of the periods presented. When using a forward contract as a hedging instrument, the Company excludes the time value of the contract from the assessment of effectiveness. At each quarter-end, the Company had not hedged forecasted transactions for more than the next twelve months, and the Company expects all derivative-related amounts reported in AOCL to be reclassified to earnings within twelve months. The net change in the fair value of foreign exchange derivative financial instruments designated as cash flow hedges of the purchase of inventory was not significant for the thirteen weeks ended April 28, 2012 and was \$3 million the thirteen weeks ended April 30, 2011. The notional value of the contracts outstanding at April 28, 2012 was \$51 million and these contracts extend through January 2013.

FOOT LOCKER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**5. Financial Instruments – (continued)**

*Derivative Holdings Designated as Non-Hedges*

The Company mitigates the effect of fluctuating foreign exchange rates on the reporting of foreign-currency denominated earnings by entering into currency option contracts. Changes in the fair value of these foreign currency option contracts, which are designated as non-hedges, are recorded in earnings immediately within other income. The realized gains, premiums paid and changes in the fair market value recorded in the Condensed Consolidated Statements of Operations were not significant for any of the periods presented.

The Company also enters into forward foreign exchange contracts to hedge foreign-currency denominated merchandise purchases and intercompany transactions that are not designated as hedges. Net changes in the fair value of foreign exchange derivative financial instruments designated as non-hedges were substantially offset by the changes in value of the underlying transactions, which were recorded in selling, general and administrative expenses. The net change in fair value was not significant for any of the periods presented. The notional value of the contracts outstanding at April 28, 2012 was \$36 million and these contracts extend through July 2012.

The Company enters into diesel fuel forward and option contracts to mitigate a portion of the Company's freight expense due to the variability caused by fuel surcharges imposed by our third-party freight carriers. Changes in the fair value of these contracts are recorded in earnings immediately. The effect was not significant for any of the periods presented. The notional value of the contracts outstanding at April 28, 2012 was \$5 million and these contracts extend through November 2012.

*Fair Value of Derivative Contracts*

The following represents the fair value of the Company's derivative contracts. Many of the Company's agreements allow for a netting arrangement. The following is presented on a gross basis, by type of contract:

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| (in millions)                                 | Balance Sheet<br>Caption | April 28,<br>2012 | April<br>30,<br>2011 | January<br>28,<br>2012 |
|---|--------------------------|-------------------|----------------------|------------------------|
| <b>Hedging Instruments:</b>                   |                          |                   |                      |                        |
| Forward foreign exchange contracts            | Current assets           | \$—               | \$ 3                 | \$ —                   |
| Forward foreign exchange contracts            | Current liability        | \$2               | \$ —                 | \$ 2                   |
| <b>Non-Hedging Instruments:</b>               |                          |                   |                      |                        |
| Forward foreign exchange and option contracts | Current assets           | \$—               | \$ 1                 | \$ —                   |

*Fair Value of Financial Instruments*

The carrying value and estimated fair value of long-term debt were as follows:

| (in millions)  | April<br>28,<br>2012 | April<br>30,<br>2011 | January<br>28,<br>2012 |
|----------------|----------------------|----------------------|------------------------|
| Carrying value | \$135                | \$136                | \$ 135                 |
| Fair value     | \$147                | \$140                | \$ 140                 |

The carrying values of cash and cash equivalents, short-term investments, and other current receivables and payables approximate their fair value.

FOOT LOCKER, INC.NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**6. Fair Value Measurements**

The Company's financial assets recorded at fair value are categorized as follows:

Level 1 Quoted prices for identical instruments in active markets.

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs or significant value-drivers are observable in active markets.

Level 3 – Model-derived valuations in which one or more significant inputs or significant value-drivers are unobservable.

The following tables provide a summary of the Company's recognized assets and liabilities that are measured at fair value on a recurring basis:

| (in millions)                      | At April 28, 2012 |              |             | At April 30, 2011 |             |             | At January 28, 2012 |             |             |
|------------------------------------|-------------------|--------------|-------------|-------------------|-------------|-------------|---------------------|-------------|-------------|
|                                    | Level 1           | Level 2      | Level 3     | Level 1           | Level 2     | Level 3     | Level 1             | Level 2     | Level 3     |
| <b>Assets</b>                      |                   |              |             |                   |             |             |                     |             |             |
| Short-term investments             | \$ —              | \$ 50        | \$ —        | \$ —              | \$ —        | \$ —        | \$ —                | \$ —        | \$ —        |
| Auction rate security              | —                 | 5            | —           | —                 | 5           | —           | —                   | 5           | —           |
| Forward foreign exchange contracts | —                 | —            | —           | —                 | 4           | —           | —                   | —           | —           |
| <b>Total Assets</b>                | <b>\$ —</b>       | <b>\$ 55</b> | <b>\$ —</b> | <b>\$ —</b>       | <b>\$ 9</b> | <b>\$ —</b> | <b>\$ —</b>         | <b>\$ 5</b> | <b>\$ —</b> |
| <b>Liabilities</b>                 |                   |              |             |                   |             |             |                     |             |             |
| Forward foreign exchange contracts | —                 | 2            | —           | —                 | —           | —           | —                   | 2           | —           |
| <b>Total Liabilities</b>           | <b>\$ —</b>       | <b>\$ 2</b>  | <b>\$ —</b> | <b>\$ —</b>       | <b>\$ —</b> | <b>\$ —</b> | <b>\$ —</b>         | <b>\$ 2</b> | <b>\$ —</b> |

The Company's short-term investments consisted of available-for-sale securities, which are primarily comprised of investments in corporate bonds. Available-for-sale securities are recorded at fair value with unrealized gains and losses reported, net of tax, in other comprehensive income, unless unrealized losses are determined to be other than temporary. As of April 28, 2012, the Company held \$50 million of available-for-sale securities with maturity dates within one year from the purchase date. These securities are valued using market prices in markets that are not active and therefore are classified as Level 2 instruments. Level 2 instrument valuations are obtained from readily available pricing sources for comparable instruments.

Interest income related to the short-term investments included within interest expense was not significant for the three months ended April 28, 2012.

The Company's auction rate security is classified as available-for-sale and, accordingly, is reported at fair value. The fair value of the security is determined by review of the underlying security at each reporting period. The Company's derivative financial instruments are valued using market-based inputs to valuation models. These valuation models require a variety of inputs, including contractual terms, market prices, yield curves, and measures of volatility.

There were no transfers into or out of Level 1, Level 2, or Level 3 assets and liabilities for any of the periods presented.

FOOT LOCKER, INC.NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**7. Earnings Per Share**

The Company accounts for and discloses net earnings per share using the treasury stock method. The Company's basic earnings per share is computed by dividing the Company's reported net income for the period by the weighted-average number of common shares outstanding at the end of the period. The Company's restricted stock awards, which contain non-forfeitable rights to dividends, are considered participating securities and are included in the calculation of basic earnings per share. Diluted earnings per share reflects the weighted-average number of common shares outstanding during the period used in the basic earnings per share computation plus dilutive common stock equivalents. The Company's basic and diluted weighted-average number of common shares outstanding as of April 28, 2012 and April 30, 2011, were as follows:

|  | Thirteen<br>weeks ended |                      |
|--|-------------------------|----------------------|
|  | April<br>28,<br>2012    | April<br>30,<br>2011 |
| <b>(in millions)</b>                             |                         |                      |
| Weighted-average common shares outstanding       | 151.8                   | 154.4                |
| <i>Effect of Dilution:</i>                       |                         |                      |
| Stock options and awards                         | 2.5                     | 1.3                  |
| Weighted-average common shares assuming dilution | 154.3                   | 155.7                |

Substantially all options to purchase common stock outstanding as of April 28, 2012 were included in the computation of diluted earnings per share. Options to purchase 3.2 million shares of common stock were not included in the computation for the thirteen weeks ended April 30, 2011. These options were not included primarily because the exercise prices of the options were greater than the average market price of the common shares and, therefore, the effect would have been antidilutive. For the thirteen weeks ended April 28, 2012, contingently issuable shares of 0.3 million have not been included as the vesting conditions have not been satisfied.

**8. Pension and Postretirement Plans**

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The Company has defined benefit pension plans covering certain of its North American employees, which are funded in accordance with the provisions of the laws where the plans are in effect. In addition to providing pension benefits, the Company sponsors postretirement medical and life insurance plans, which are available to most of its retired U.S. employees. These medical and life insurance plans are contributory and are not funded.

The following are the components of net periodic pension benefit cost and net periodic postretirement benefit income:

|                                 | Pension Benefits |                | Postretirement Benefits |                |
|---------------------------------|------------------|----------------|-------------------------|----------------|
|                                 | April 28, 2012   | April 30, 2011 | April 28, 2012          | April 30, 2011 |
| (in millions)                   |                  |                |                         |                |
| Service cost                    | \$3              | \$3            | \$ —                    | \$ —           |
| Interest cost                   | 7                | 8              | —                       | —              |
| Expected return on plan assets  | (10)             | (10)           | —                       | —              |
| Amortization of net loss (gain) | 4                | 4              | (1 )                    | (1 )           |
| Net benefit expense (income)    | \$4              | \$5            | \$ (1 )                 | \$ (1 )        |

No pension contributions to the U.S. or Canadian qualified plans were made during the thirteen weeks ended April 28, 2012. Additionally, no pension contributions to its U.S. or Canadian qualified plans are required in 2012. During the thirteen weeks ended April 30, 2011 the Company made a \$1 million contribution to its Canadian qualified plan.



FOOT LOCKER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**8. Pension and Postretirement Plans – (continued)**

The Company and the Company’s U.S. retirement plan are defendants in a purported class action in which the plaintiff alleges that, in connection with the 1996 conversion of the retirement plan to a defined benefit plan with a cash balance formula, the Company and the retirement plan failed to properly advise plan participants of the “wear-away” effect of the conversion. Plaintiff asserts claims for breach of fiduciary duty under the Employee Retirement Income Security Act of 1974 (ERISA) and violation of the statutory provisions governing the content of the Summary Plan Description. Claims for alleged violations of the notice provision of Section 204(h) of ERISA and ERISA’s age discrimination provisions were dismissed by the court. The case is currently in the discovery stage. Because of the inherent uncertainties of such matters, and because discovery has not been completed, the Company is currently unable to make an estimate of loss or range of loss for this case. Management does not believe that the outcome of this legal proceeding would have a material adverse effect on the Company’s consolidated financial position, liquidity, or results of operations, taken as a whole.

**9. Share-Based Compensation**

The Company uses a Black-Scholes option-pricing model to estimate the fair value of share-based awards. Total compensation expense related to the Company’s share-based compensation plans was \$6 million and \$4 million for the thirteen weeks ended April 28, 2012 and April 30, 2011, respectively. The associated tax benefits recognized for the thirteen weeks ended April 28, 2012 and April 30, 2011 were \$2 million and \$1 million, respectively. Tax deductions in excess of the cumulative compensation cost recognized for share-based compensation arrangements were \$5 million and \$1 million for the thirteen weeks ended April 28, 2012 and April 30, 2011, respectively, and are classified as a financing activity with the Condensed Consolidated Statements of Cash Flows.

The Black-Scholes option-pricing model incorporates various and highly subjective assumptions, including expected term and expected volatility. The following table shows the Company’s assumptions used to compute the share-based compensation expense:

| Stock Option Plans |           | Stock Purchase Plan |           |
|--------------------|-----------|---------------------|-----------|
| April 28,          | April 30, | April 28,           | April 30, |

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|   | 2012      |   | 2011      |   | 2012     |   | 2011     |   |
|---|-----------|---|-----------|---|----------|---|----------|---|
| Weighted-average risk free rate of interest | 1.50      | % | 2.11      | % | 0.21     | % | 0.41     | % |
| Expected volatility                         | 43        | % | 45        | % | 35       | % | 38       | % |
| Weighted-average expected award life        | 5.5 years |   | 5.0 years |   | 1.0 year |   | 1.0 year |   |
| Dividend yield                              | 2.3       | % | 3.5       | % | 2.7      | % | 4.1      | % |
| Weighted-average fair value                 | \$10.14   |   | \$5.76    |   | \$4.90   |   | \$2.96   |   |

The information in the following table covers options granted under the Company's stock option plans for the thirteen weeks ended April 28, 2012:

| (in thousands, except price per share and weighted-average term) | Shares | Weighted-Average Term | Weighted-Average Exercise Price |
|--|--------|-----------------------|---------------------------------|
| Options outstanding at the beginning of the year                 | 7,227  |                       | \$ 18.44                        |
| Granted  | 930    |                       | 30.92                           |
| Exercised  | (826 ) |                       | 17.60                           |
| Expired or cancelled   | (24 )  |                       | 22.22                           |
| Options outstanding at April 28, 2012                            | 7,307  | 6.33                  | \$ 20.11                        |
| Options exercisable at April 28, 2012                            | 4,838  | 4.94                  | \$ 18.83                        |
| Options available for future grant at April 28, 2012             | 5,619  |                       |                                 |

FOOT LOCKER, INC.NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**9. Share-Based Compensation – (continued)**

|  | Thirteen<br>weeks<br>ended<br>April April<br>28, 30,<br>2012 2011 |      |
|--|---|------|
| Intrinsic value of stock options (in millions) |   |      |
| Exercised                                      | \$11  | \$2  |
| Outstanding                                    | \$79  | \$41 |
| Outstanding and exercisable                    | \$58  | \$27 |

The cash received from option exercises for the thirteen weeks ended April 28, 2012 and April 30, 2011 was \$14 million and \$3 million, respectively. The total tax benefit realized from stock option exercises was \$4 million and \$1 million for the thirteen weeks ended April 28, 2012 and April 30, 2011, respectively.

The following table summarizes information about stock options outstanding and exercisable at April 28, 2012:

| Range of Exercise<br>Prices                                 | Options Outstanding   |   |   | Options Exercisable   |  |  |
|---|-----------------------|---|---|-----------------------|--|--|
|   | Number<br>Outstanding | Weighted-<br>Average<br>Remaining<br>Contractual Life | Weighted-<br>Average<br>Exercise<br>Price | Number<br>Exercisable | Weighted-<br>Average<br>Exercise Price |  |
| (in thousands, except price per share and contractual life) |                       |   |   |                       |  |  |
| \$9.85 \$15.10  | 2,576                 | 6.75  | \$ 12.41                                  | 2,076                 | \$ 12.01                               |  |
| \$15.74 \$23.42   | 2,024                 | 7.43  | \$ 20.01                                  | 1,059                 | \$ 21.05                               |  |
| \$23.59 \$28.16   | 1,778                 | 2.61  | \$ 25.72                                  | 1,703                 | \$ 25.76                               |  |
| \$30.92 \$30.92   | 929                   | 9.90  | \$ 30.92                                  | —                     | \$ —                                   |  |
| \$9.85 \$30.92  | 7,307                 | 6.33  | \$ 20.11                                  | 4,838                 | \$ 18.83                               |  |

Changes in the Company's nonvested options for the thirteen weeks ended April 28, 2012 are summarized as follows:

| <b>(in thousands, except price per share)</b> | Number of<br>Shares | Weighted-<br>Average Grant<br>Date Fair Value<br>per Share |
|---|---------------------|--|
| Nonvested at January 28, 2012                 | 2,629               | \$ 16.84   |
| Granted                                       | 930                 | 30.92  |
| Vested  | (1,066 )            | 15.64  |
| Expired or cancelled                          | (24 )               | 22.22  |
| Nonvested at April 28, 2012                   | 2,469               | \$ 22.61   |

Compensation expense related to the Company's stock option and stock purchase plans was \$2 million for both the thirteen weeks ended April 28, 2012 and April 30, 2011. As of April 28, 2012, there was \$11 million of total unrecognized compensation cost, related to nonvested stock options, which is expected to be recognized over a weighted-average period of 1.45 years.

FOOT LOCKER, INC.NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**9. Share-Based Compensation – (continued)***Restricted Stock and Units*

Restricted shares of the Company's common stock and restricted stock units may be awarded to certain officers and key employees of the Company. The Company also issues restricted stock units to its non-employee directors. Each restricted stock unit represents the right to receive one share of the Company's common stock, provided that the vesting conditions are satisfied. As of April 28, 2012, 1,255,821 restricted stock units were outstanding. Compensation expense is recognized using the fair market value at the date of grant and is amortized over the vesting period, provided the recipient continues to be employed by the Company.

Generally, awards fully vest after the passage of time, typically three years. However, restricted stock unit grants made in connection with the Company's long-term incentive program vest after the attainment of certain performance metrics and the passage of time. Restricted stock is considered outstanding at the time of grant and the holders have voting rights. Dividends are paid to holders of restricted stock that vests with the passage of time; for any performance-based restricted stock granted after May 19, 2010, dividends will be accumulated and paid after the performance criteria are met.

Restricted shares and units activity for the thirteen weeks ended April 28, 2012 and April 30, 2011 is summarized as follows:

| (in thousands)                     | Number of Shares and Units |                   |
|------------------------------------|----------------------------|-------------------|
|                                    | April 28,<br>2012          | April 30,<br>2011 |
| Outstanding at beginning of period | 2,068                      | 1,759             |
| Granted                            | 244                        | 461               |
| Vested                             | (460                       | ) (263            |
| Cancelled or forfeited             | —                          | —                 |

|   |            |            |
|---|------------|------------|
| Outstanding at end of period                | 1,852      | 1,957      |
| Aggregate value (in millions)               | \$ 33      | \$ 26      |
| Weighted-average remaining contractual life | 1.44 years | 1.74 years |

The weighted-average grant-date fair value per share was \$30.89 and \$18.15 for the thirteen weeks ended April 28, 2012 and April 30, 2011, respectively. The total value of awards for which restrictions lapsed during the thirteen weeks ended April 28, 2012 and April 30, 2011 was \$5 million and \$3 million, respectively. As of April 28, 2012, there was \$15 million of total unrecognized compensation cost related to nonvested restricted awards. The Company recorded compensation expense related to restricted stock awards, net of forfeitures, of \$3 million and \$2 million for the thirteen week periods ended April 28, 2012 and April 30, 2011.

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

BUSINESS OVERVIEW

Foot Locker, Inc., through its subsidiaries, operates in two reportable segments – Athletic Stores and Direct-to-Customers. The Athletic Stores segment is one of the largest athletic footwear and apparel retailers in the world, whose formats include Foot Locker, Lady Foot Locker, Kids Foot Locker, Champs Sports, Footaction, and CCS. The Direct-to-Customers segment is multi-branded and multi-channeled. This segment sells, through its affiliates, directly to customers through its Internet websites, mobile devices, and catalogs. Eastbay, one of the affiliates, is among the largest direct marketers in the United States. The Direct-to-Customers segment operates the website for eastbay.com, final-score.com, and eastbayteamservices.com. Additionally, this segment operates websites aligned with the brand names of its store banners (footlocker.com, ladyfootlocker.com, kidsfootlocker.com, footaction.com, champssports.com, and ccs.com).

**STORE COUNT**

At April 28, 2012, the Company operated 3,360 stores as compared with 3,369 and 3,420 stores at January 28, 2012 and April 30, 2011, respectively. During the thirteen weeks ended April 28, 2012, the Company opened 25 stores, remodeled or relocated 53 stores and closed 34 stores.

A total of 36 franchised stores were operating at April 28, 2012, as compared with 34 and 27 stores at January 28, 2012 and April 30, 2011, respectively. Revenue from the franchised stores was not significant for any of the periods presented. These stores are not included in the Company's operating store count above.

**SALES AND OPERATING RESULTS**

All references to comparable-store sales for a given period relate to sales from stores (including sales from the Direct-to-Customers segment and sales from stores that have been relocated or remodeled during the relevant periods) that are open at the period-end, that have been open for more than one year, and exclude the effect of foreign currency fluctuations. Stores opened and closed during the period are not included.

The following table summarizes results by segment:

**Sales**

|                      | Thirteen weeks ended |                |
|----------------------|----------------------|----------------|
|                      | April 28, 2012       | April 30, 2011 |
| <b>(in millions)</b> |                      |                |
| Athletic Stores      | \$1,437              | \$1,331        |
| Direct-to-Customers  | 141                  | 121            |
| Total sales          | \$1,578              | \$1,452        |

**Operating Results**

|                                     | Thirteen<br>weeks<br>ended |                      |
|-------------------------------------|----------------------------|----------------------|
|                                     | April<br>28,<br>2012       | April<br>30,<br>2011 |
| <b>(in millions)</b>                |                            |                      |
| Athletic Stores                     | \$207                      | \$162                |
| Direct-to-Customers                 | 18                         | 13                   |
| Restructuring charge <sup>(1)</sup> | —                          | (1 )                 |
| Division profit                     | 225                        | 174                  |
| Less: Corporate expense, net        | 23                         | 24                   |
| Operating profit                    | 202                        | 150                  |
| Interest expense, net               | 1                          | 2                    |
| Other income <sup>(2)</sup>         | —                          | 1                    |
| Income before income taxes          | \$201                      | \$149                |

During 2011, the Company increased its 1993 Repositioning and 1991 Restructuring reserve by \$1 million for (1) repairs necessary to one of the locations comprising this reserve. This amount is included in selling, general and administrative expenses in the Condensed Consolidated Statement of Operations.

Other income includes non-operating items, such as gains from insurance recoveries, gains on the repurchase and retirement of bonds, royalty income, the changes in fair value, premiums paid and realized gains associated with (2) foreign currency option contracts. The amount for the thirteen weeks ended April 30, 2011 primarily represents a lease termination gain related to the sale of a leasehold interest in Europe and royalty income from the Company's franchise operations.

Sales increased by \$126 million, or 8.7 percent, to \$1,578 million for the thirteen weeks ended April 28, 2012, from \$1,452 million for the thirteen weeks ended April 30, 2011. Excluding the effect of foreign currency fluctuations, total sales for the thirteen-week period increased 9.8 percent, as compared with the corresponding prior-year period. Comparable-store sales increased by 9.7 percent for the thirteen weeks ended April 28, 2012.



Gross margin, as a percentage of sales, increased to 34.0 percent for the thirteen weeks ended April 28, 2012 as compared with 32.7 percent in the corresponding prior-year period. As a percent of sales, the cost of merchandise for the thirteen weeks ended April 28, 2012 decreased by 30 basis points as compared with the corresponding prior-year period, primarily reflecting a lower markdown rate and improved apparel margins. For the thirteen weeks ended April 28, 2012, the occupancy and buyers' salary expense rate decreased 100 basis points as a percentage of sales, as compared with the prior year thirteen-week period, reflecting improved leverage on these primarily fixed costs. Vendor allowances were not significant for any of the periods presented.

### Segment Analysis

#### *Athletic Stores*

Athletic Stores sales increased by 8.0 percent to \$1,437 million for the thirteen weeks ended April 28, 2012, as compared with the corresponding prior-year period of \$1,331 million. Excluding the effect of foreign currency fluctuations, sales from athletic store divisions increased 9.2 percent for the thirteen weeks ended April 28, 2012, as compared with the corresponding prior-year period. Comparable-store sales increased by 9.1 percent for the thirteen weeks ended April 28, 2012. All divisions within this segment experienced comparable-store sales gains with the exception of Foot Locker Europe, which had a mid-single digit comparable-store sales decline. Foot Locker Europe's sales were negatively affected by the continued difficult economic conditions in that region. Lady Foot Locker's comparable-store sales increased by low single digits, while total sales declined principally due to lower store count. Management has continued to review the women's business and is developing various initiatives, such as expanded apparel offerings and a new store design, which is expected to be tested later this year. The Company's overall sales increase included gains in basketball, running, and casual footwear, as well as apparel and accessories.

Athletic Stores division profit increased 27.8 percent for the thirteen weeks ended April 28, 2012, as compared with the corresponding prior-year period. Athletic Stores division profit, as a percentage of sales, increased to 14.4 percent for the thirteen weeks ended April 28, 2012, from 12.2 percent in the corresponding prior-year period. The increase in division profit reflected improved sales, as well as a higher merchandise gross margin rate, reflecting lower promotions during the current year and improved apparel gross margins. The flow-through of incremental sales to division profit was 42.5 percent, reflecting primarily the leveraging of fixed expenses.

#### *Direct-to-Customers*

Direct-to-Customers sales increased by 16.5 percent to \$141 million for the thirteen weeks ended April 28, 2012, as compared with the corresponding prior-year period of \$121 million. Internet sales increased by 18.7 percent to \$127 million for the thirteen weeks ended April 28, 2012, as compared with the corresponding prior-year period. All

components of this segment reflected increased sales, representing the continued growth of the store banner websites and higher sales from Eastbay.

Direct-to-Customers division profit for the thirteen weeks ended April 28, 2012 increased by \$5 million to \$18 million as compared with the corresponding prior-year period. Division profit, as a percentage of sales, was 12.8 percent for the thirteen weeks ended April 28, 2012 as compared with 10.7 percent for the corresponding prior-year period. The increase primarily reflects improved gross margin partly offset by slightly higher expenses.

#### Corporate Expense

Corporate expense consists of unallocated general and administrative expenses, as well as depreciation and amortization related to the Company's corporate headquarters, centrally managed departments, unallocated insurance and benefit programs, certain foreign exchange transaction gains and losses, and other items. Corporate expense for the thirteen weeks ended April 28, 2012 decreased by \$1 million to \$23 million from the corresponding prior-year period.

Selling, General and Administrative

Selling, general and administrative expenses (“SG&A”) of \$306 million increased by \$8 million or 2.7 percent, for the thirteen weeks ended April 28, 2012 as compared with the corresponding prior-year period. SG&A, as a percentage of sales, decreased to 19.4 percent for the thirteen weeks ended April 28, 2012, as compared with 20.5 percent in the corresponding prior-year period. Excluding the effect of foreign currency fluctuations, SG&A increased by \$12 million for the thirteen weeks ended April 28, 2012, as compared with the corresponding prior-year period. This increase principally represents increased variable costs to support sales, such as store wages and banking expenses. Additionally, marketing expenses increased by \$2 million, as the Company continues to invest in marketing campaigns specific to each banner.

Depreciation and Amortization

Depreciation and amortization increased by \$2 million in the first quarter of 2012 to \$29 million as compared with \$27 million for the first quarter of 2011, reflecting increased capital spending on store improvements and technology. The effect of foreign currency fluctuations, primarily related to the euro, was not significant for the thirteen weeks ended April 28, 2012.

Interest Expense

|                       | Thirteen<br>weeks<br>ended<br>April April<br>28, 30,<br>2012 2011 |     |
|-----------------------|---|-----|
| (in millions)         |   |     |
| Interest expense      | \$3   | \$4 |
| Interest income       | (2)   | (2) |
| Interest expense, net | \$1   | \$2 |

The decrease in net interest expense for the thirteen weeks ended April 28, 2012 as compared with the corresponding prior-year period primarily reflects lower expenses associated with the Company’s revolving credit facility, which was amended at the end of 2011 with lower annual fees.

Income Taxes

For the thirteen weeks ended April 28, 2012 and April 30, 2011, the Company recorded income tax provisions of \$73 million and \$55 million, respectively, which represents an effective tax rate of 36.4 percent and 36.9 percent, respectively. The Company's quarterly provision for income taxes is measured using an annual effective tax rate, adjusted for discrete items that occur within the periods presented. The effective tax rate is significantly affected by the difference between the U.S. federal statutory tax rate and the tax rates in foreign jurisdictions.

The Company regularly assesses the adequacy of the Company's provisions for income tax contingencies in accordance with the applicable authoritative guidance on accounting for income taxes. As a result, the Company may adjust the reserves for unrecognized tax benefits for the impact of new facts and developments, such as changes to interpretations of relevant tax law, assessments from taxing authorities, settlements with taxing authorities, and lapses of statutes of limitation. The effective tax rate for the thirteen weeks ended April 28, 2012 includes tax benefits of \$2 million from reserve releases due to the settlements of federal, state, and foreign tax examinations. Excluding these nonrecurring benefits, the effective tax rate for the thirteen weeks ended April 28, 2012 increased as compared with the corresponding prior-year period, due primarily to a higher proportion of income earned in higher tax jurisdictions.

The Company currently expects its full year tax rate to approximate 37 percent, excluding the effect of any additional nonrecurring items that may occur. The actual rate will vary depending primarily on the proportion of income earned in the United States as compared with international operations.

### Net Income

Net income of \$128 million, or \$0.83 per diluted share, for the thirteen weeks ended April 28, 2012 increased by \$0.23 per diluted share from \$94 million, or \$0.60 per share last year. This represents a 41.3 percent flow-through of increased sales to pre-tax income, reflecting leveraging of fixed costs and controlling operating expenses.

### LIQUIDITY AND CAPITAL RESOURCES

The Company's primary source of liquidity has been cash flow from operations, while the principal uses of cash have been to: fund inventory and other working capital requirements; finance capital expenditures related to store openings, store remodelings, Internet and mobile sites, information systems, and other support facilities; make retirement plan contributions, quarterly dividend payments, and interest payments; and fund other cash requirements to support the development of its short-term and long-term operating strategies. The Company generally finances real estate with operating leases. Management believes its cash, cash equivalents, future cash flow from operations, and the Company's current revolving credit facility will be adequate to fund these requirements.

The Company may also from time to time repurchase its common stock or seek to retire or purchase outstanding debt through open market purchases, privately negotiated transactions, or otherwise. Such repurchases, if any, will depend on prevailing market conditions, liquidity requirements, contractual restrictions, and other factors. The amounts involved may be material.

Any material adverse change in customer demand, fashion trends, competitive market forces, or customer acceptance of the Company's merchandise mix and retail locations, uncertainties related to the effect of competitive products and pricing, the Company's reliance on a few key vendors for a significant portion of its merchandise purchases and risks associated with global product sourcing, economic conditions worldwide, the effects of currency fluctuations, as well as other factors listed under the heading "Disclosure Regarding Forward-Looking Statements," could affect the ability of the Company to continue to fund its needs from business operations.

On May 16, 2012, the Company's Board of Directors approved an overall increase of \$10 million to the 2012 capital expenditure and lease acquisition plan to \$170 million, representing capital expenditures of \$163 million and lease acquisition costs related to the Company's operations in Europe of \$7 million. Separately, in May 2012 the Company purchased from the U.S. pension trust its investment in real estate for \$8 million.

### Operating Activities

Net cash provided by operating activities was \$133 million and \$154 million for the thirteen weeks ended April 28, 2012 and April 30, 2011, respectively. These amounts reflect net income adjusted for non-cash items and seasonal working capital changes. The decline in operating cash flow reflects the timing of income tax payments as well as the prior year receipt of a \$46 million IRS income tax refund resulting from a loss carryback.

*Investing Activities*

Net cash used in investing activities was \$89 million, reflecting the Company's purchase of \$50 million of short-term investments, as well as increased capital expenditures. The Company's full year forecast for capital expenditures is \$163 million, of which \$122 million relates to the modernizations of existing stores and new store openings and \$41 million for the development of information systems and infrastructure.

Financing Activities

Net cash used in financing was \$36 million and \$51 million for the thirteen weeks ended April 28, 2012 and April 30, 2011, respectively. The Company declared and paid dividends during the first quarters of 2012 and 2011 of \$28 million and \$25 million, respectively. This represents a quarterly rate of \$0.18 and \$0.165 per share for 2012 and 2011, respectively. During the first quarter of 2012, the Company repurchased 878,700 shares of its common stock for \$27 million, compared with \$30 million repurchased in the first quarter of the prior year. Additionally, the Company received proceeds from the issuance of common stock in connection with employee stock programs of \$14 million and \$3 million for the thirteen weeks ended April 28, 2012 and April 30, 2011, respectively. In connection with stock option exercises and share-based compensation programs, the Company recorded excess tax benefits of \$5 million and \$1 million as a financing activity for the thirteen weeks ended April 28, 2012 and April 30, 2011, respectively.

Recent Accounting Pronouncements

During the first quarter of 2012, the Company adopted ASU No. 2011-08, *Testing Goodwill for Impairment*. The revised standard is intended to reduce the cost and complexity of the annual goodwill impairment test by providing entities an option to perform a qualitative assessment to determine whether further impairment testing is necessary. The adoption of this ASU did not have a significant effect on our results of operations or financial position.

During the first quarter of 2012, the Company also adopted ASU No. 2011-05, *Presentation of Comprehensive Income*, which requires presentation of total comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The implementation of the amended reporting guidance had no effect on our disclosures.

Other recently issued accounting pronouncements did not, or are not believed by management to, have a material effect on the Company's present or future consolidated financial statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

There have been no significant changes to the Company's critical accounting policies and estimates from the information provided in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in the Annual Report on Form 10-K for the fiscal year ended January 28, 2012.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of the federal securities laws. Other than statements of historical facts, all statements which address activities, events, or developments that the Company anticipates will or may occur in the future, including, but not limited to, such things as future capital expenditures, expansion, strategic plans, financial objectives, dividend payments, stock repurchases, growth of the Company's business and operations, including future cash flows, revenues, and earnings, and other such matters, are forward-looking statements. These forward-looking statements are based on many assumptions and factors which are detailed in the Company's filings with the Securities and Exchange Commission, including the effects of currency fluctuations, customer demand, fashion trends, competitive market forces, uncertainties related to the effect of competitive products and pricing, customer acceptance of the Company's merchandise mix and retail locations, the Company's reliance on a few key vendors for a majority of its merchandise purchases (including a significant portion from one key vendor), pandemics and similar major health concerns, unseasonable weather, further deterioration of global financial markets, economic conditions worldwide, further deterioration of business and economic conditions, any changes in business, political and economic conditions due to the threat of future terrorist activities in the United States or in other parts of the world and related U.S. military action overseas, the ability of the Company to execute its business and strategic plans effectively with regard to each of its business units, and risks associated with global product sourcing, including political instability, changes in import regulations, and disruptions to transportation services and distribution.



For additional discussion on risks and uncertainties that may affect forward-looking statements, see “Risk Factors” disclosed in the 2011 Annual Report on Form 10-K. Any changes in such assumptions or factors could produce significantly different results. The Company undertakes no obligation to update forward-looking statements, whether as a result of new information, future events, or otherwise.

#### Item 4. Controls and Procedures

The Company’s management performed an evaluation under the supervision and with the participation of the Company’s Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), and completed an evaluation as of April 28, 2012 of the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Based on that evaluation, the Company’s CEO and CFO concluded that the Company’s disclosure controls and procedures were effective to ensure that information relating to the Company that is required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC rules and forms, and is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

During the quarter ended April 28, 2012, there were no changes in the Company’s internal control over financial reporting (as defined in Rules 13a-15(f) of the Exchange Act) that materially affected or are reasonably likely to affect the Company’s internal control over financial reporting.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

Legal proceedings pending against the Company or its consolidated subsidiaries consist of ordinary, routine litigation, including administrative proceedings, incidental to the business of the Company or businesses that have been sold or disposed of by the Company in past years. These legal proceedings include commercial, intellectual property, customer, environmental, and labor-and-employment-related claims.

Certain of the Company’s subsidiaries are defendants in a number of lawsuits filed in state and federal courts containing various class action allegations under federal or state wage and hour laws, including allegations concerning unpaid overtime, meal, and rest breaks, and uniforms.

The Company is a defendant in one such case in which plaintiff alleges that the Company permitted unpaid off-the-clock hours in violation of the Fair Labor Standards Act and state labor laws. The case, *Pereira v. Foot Locker*, was filed in the U.S. District Court for the Eastern District of Pennsylvania in 2007. In his complaint, in addition to unpaid wage and overtime allegations, plaintiff seeks compensatory and punitive damages, injunctive relief, and attorneys' fees and costs. In 2009, the Court conditionally certified a nationwide collective action. During the course of 2010, notices were sent to approximately 81,888 current and former employees of the Company offering them the opportunity to participate in the class action, and approximately 5,027 have opted in.

The Company is a defendant in additional purported wage and hour class actions that assert claims similar to those asserted in *Pereira* and seek similar remedies. With the exception of *Hill v. Foot Locker* filed in state court in Illinois in 2011, and *Cortes v. Foot Locker* filed in federal court of New York, all of these actions were consolidated by the United States Judicial Panel on Multidistrict Litigation with *Pereira*. The consolidated cases are in the discovery stages of proceedings. In *Hill v. Foot Locker*, in May 2011, the court granted plaintiffs' motion for certification of an opt-out class covering certain Illinois employees only. The Company's motion for leave to appeal was denied. The Company is currently engaged in mediation with plaintiff's counsel in *Pereira* in an attempt to determine whether it will be possible to resolve the consolidated cases and *Hill*. Meanwhile, the Company is vigorously defending them. Due to the inherent uncertainties of such matters, and because fact and expert discovery have not been completed, the Company is currently unable to make an estimate of the range of loss.

Management does not believe that the outcome of any such legal proceedings pending against the Company or its consolidated subsidiaries, including the *Pereira* consolidated cases and *Hill* as described above, would have a material adverse effect on the Company's consolidated financial position, liquidity, or results of operations, taken as a whole.

### Item 1A. Risk Factors

There were no material changes to the risk factors disclosed in the 2011 Annual Report on Form 10-K.

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

The following table provides information with respect to shares of the Company's common stock that the Company repurchased during the thirteen weeks ended April 28, 2012.

| Date Purchased                             | Total<br>Number<br>of Shares<br>Purchased<br>(1) | Average<br>Price Paid<br>per Share (1) | Total Number of<br>Shares Purchased<br>as Part of Publicly<br>Announced<br>Program (2) | Approximate<br>Dollar Value of<br>Shares that may<br>yet be Purchased<br>Under the<br>Program (2) |
|--|--|--|--|---|
| January 28, 2012 through February 25, 2012 | 47,850   | \$ 26.24                               | —  | \$ 400,000,000  |
| February 26, 2012 through March 31, 2012   | 547,330  | \$ 30.82                               | 381,400  | \$ 388,274,235  |
| April 1, 2012 through April 28, 2012       | 499,982  | \$ 30.81                               | 497,300  | \$ 372,954,366  |
|  | 1,095,162  | \$ 30.61                               | 878,700  | \$ 372,954,366  |

(1) These columns also reflect shares purchased in connection with stock swaps and shares acquired in satisfaction of the tax withholding obligation of holders of restricted stock and restricted stock units which vested during the quarter. The calculation of the average price paid per share includes all fees, commissions, and other costs associated with the repurchase of such shares.

(2) On February 14, 2012, the Company's Board of Directors approved a new 3-year, \$400 million share repurchase program extending through January 2015.

Item 6. Exhibits

(a) Exhibits

The exhibits that are in this report immediately follow the index.

23

SIGNATURE

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

FOOT LOCKER, INC.

Date: June 6, 2012 (Company)

/s/ Lauren B. Peters

LAUREN B. PETERS

Executive Vice President and Chief Financial Officer

FOOT LOCKER, INC.

INDEX OF EXHIBITS REQUIRED BY ITEM 6(a) OF FORM 10-Q

AND FURNISHED IN ACCORDANCE WITH ITEM 601 OF REGULATION S-K

Exhibit No.

Item 601 Description

12 Computation of Ratio of Earnings to Fixed Charges.

15 Accountants' Acknowledgement.

31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer and 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 Report of Independent Registered Public Accounting Firm.

The following materials from Foot Locker, Inc.'s Quarterly Report on Form 10-Q for the quarter ended April 28, 2012, formatted in XBRL (Extensible Business Reporting Language) and furnished electronically herewith: (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Comprehensive Income, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) Notes to Condensed Consolidated Financial Statements, tagged as blocks of text. This exhibit will not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 (15 U.S.C. 78r), or otherwise subject to the liability of that section. Such exhibit will not be deemed to be incorporated by reference into any filing under the Securities Act or Securities Exchange Act, except to the extent that the Company specifically incorporates it by reference.

25