

FOOT LOCKER INC  
Form 10-Q  
September 07, 2011

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark  
One)

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

For the quarterly period ended: July 30, 2011

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  
(State or Other Jurisdiction of Incorporation or Organization)

13-3513936  
(I.R.S. Employer Identification No.)

112 West 34th 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

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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 August 26, 2011: 152,957,628

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FOOT LOCKER, INC.

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

## FOOT LOCKER, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except shares)

	July 30, 2011 (Unaudited)	July 31, 2010 (Unaudited)	January 29, 2011 *
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 681	\$ 512	\$ 696
Short-term investments	—	7	—
Merchandise inventories	1,269	1,219	1,059
Other current assets	189	161	179
	2,139	1,899	1,934
Property and equipment, net	408	376	386
Deferred taxes	298	351	296
Goodwill	146	144	145
Other intangibles and other assets	128	143	135
	\$3,119	\$2,913	\$2,896
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities			
Accounts payable	\$ 365	\$ 345	\$ 223
Accrued expenses and other current liabilities	255	236	266
	620	581	489
Long-term debt	136	137	137
Other liabilities	248	279	245
	1,004	997	871
Shareholders' equity			
Common stock and paid-in capital: 163,749,566, 161,843,666 and 162,659,192 shares, respectively	756	718	735
Retained earnings	1,691	1,548	1,611
Accumulated other comprehensive loss	(125 )	(228 )	(169 )
Less: Treasury stock at cost: 10,641,938, 6,184,542 and 8,039,074 shares, respectively	(207 )	(122 )	(152 )
Total shareholders' equity	2,115	1,916	2,025
	\$3,119	\$2,913	\$2,896

See Accompanying Notes to Condensed Consolidated Financial Statements.

\* The balance sheet at January 29, 2011 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 29, 2011.



## FOOT LOCKER, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in millions, except per share amounts)

	Thirteen weeks ended		Twenty-six weeks ended	
	July 30, 2011	July 31, 2010	July 30, 2011	July 31, 2010
Sales	\$1,275	\$1,096	\$2,727	\$2,377
Cost of sales	887	791	1,864	1,679
Selling, general and administrative expenses	301	268	599	548
Depreciation and amortization	28	26	55	52
Interest expense, net	1	2	3	5
Other income	—	(1)	(1)	(1)
	1,217	1,086	2,520	2,283
Income before income taxes	58	10	207	94
Income tax expense	21	4	76	34
Net income	\$37	\$6	\$131	\$60
Basic earnings per share:				
Net income	\$0.24	\$0.04	\$0.85	\$0.39
Weighted-average common shares outstanding	153.7	156.1	154.0	156.3
Diluted earnings per share:				
Net income	\$0.24	\$0.04	\$0.84	\$0.38
Weighted-average common shares assuming dilution	155.2	156.9	155.4	157.1

See Accompanying Notes to Condensed Consolidated Financial Statements.

## FOOT LOCKER, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
(Unaudited)  
(in millions)

	Thirteen weeks ended		Twenty-six weeks ended	
	July 30, 2011	July 31, 2010	July 30, 2011	July 31, 2010
Net income	\$ 37	\$ 6	\$ 131	\$ 60
Other comprehensive income (loss)				
Foreign currency translation adjustment:				
Translation adjustment arising during the period, net of tax period	(18 )	(14 )	43	(37 )
Cash flow hedges:				
Change in fair value of derivatives, net of tax	(1 )	(1 )	-	(1 )
Pension and postretirement adjustments:				
Amortization of net actuarial gain/loss and prior services included in net periodic benefit costs, net of income tax expense of \$1 million, \$1 million, \$2 million and \$2 million	1	2	2	4
Comprehensive income (loss)	\$ 19	\$ (7 )	\$ 176	\$ 26

See Accompanying Notes to Condensed Consolidated Financial Statements.

## FOOT LOCKER, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in millions)

	Twenty-six weeks ended	
	July 30, 2011	July 31, 2010
<b>From Operating Activities:</b>		
Net income	\$131	\$60
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	55	52
Share-based compensation expense	8	7
Qualified pension plan contributions	(1 )	(2 )
<b>Change in assets and liabilities:</b>		
Merchandise inventories	(195 )	(193 )
Accounts payable	138	132
Other accruals	(21 )	27
Other, net	12	(20 )
Net cash provided by operating activities	127	63
<b>From Investing Activities:</b>		
Capital expenditures	(66 )	(51 )
Net cash used in investing activities	(66 )	(51 )
<b>From Financing Activities:</b>		
Purchase of treasury shares	(59 )	(20 )
Issuance of common stock	8	1
Dividends paid	(51 )	(47 )
Treasury stock issued under employee stock plan	4	3
Excess tax benefits on share-based compensation	3	—
Net cash used in financing activities	(95 )	(63 )
Effect of exchange rate fluctuations on Cash and Cash Equivalents	19	(19 )
Net change in Cash and Cash Equivalents	(15 )	(70 )
Cash and Cash Equivalents at beginning of year	696	582
Cash and Cash Equivalents at end of interim period	\$681	\$512
<b>Cash paid during the period:</b>		
Interest	\$6	\$6
Income taxes	\$81	\$23

See Accompanying Notes to Condensed Consolidated Financial Statements.



## 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 January 28, 2012 and of the fiscal year ended January 29, 2011. 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 29, 2011, as filed with the Securities and Exchange Commission (the "SEC") on March 28, 2011.

## Recent Accounting Pronouncements

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. 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 during the first quarters of 2011 and 2010 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 changes represent foreign exchange fluctuations.

(in millions)	July 30, 2011	July 31, 2010	January 29, 2011
Athletic Stores	\$19	\$17	\$18
Direct-to-Customers	127	127	127
Goodwill	\$146	\$144	\$145

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

(in millions)	July 30, 2011			July 31, 2010			January 29, 2011		
	Gross value	Accum. amort.	Net value	Gross value	Accum. amort.	Net value	Gross value	Accum. amort.	Net value
Finite life intangible assets:									
Lease acquisition costs	\$ 184	\$ (157 )	\$ 27	\$ 170	\$ (137 )	\$ 33	\$ 178	\$ (150 )	\$ 28
Trademark	21	(8 )	13	21	(7 )	14	21	(7 )	14
Loyalty program	1	(1 )	—	1	(1 )	—	1	(1 )	—

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Favorable leases	9	(9 )	—	9	(8 )	1	9	(8 )	1
CCS customer relationships	21	(11 )	10	21	(7 )	14	21	(9 )	12
Total finite life intangible assets	236	(186 )	50	222	(160 )	62	230	(175 )	55

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(in millions)	July 30, 2011			July 31, 2010			January 29, 2011		
	Gross value	Accum. amort.	Net value	Gross value	Accum. amort.	Net value	Gross value	Accum. amort.	Net value
Intangible assets not subject to amortization:									
Republic of Ireland trademark	2	—	2	2	—	2	2	—	