FOOT LOCKER INC
Form 10-Q
June 16, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10 - Q

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

For the quarterly period ended May 3, 2003

Commission file no. 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 W. 34th Street, New York, New York	10120
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number: (212) 720-3700

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 [X] NO [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). YES [X] NO [ ]

Number of shares of Common Stock outstanding at June 6, 2003: 142,005,247

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)

	May 3, 2003	May 200
	(Unaudited)	(Unaud
ASSETS		
Current assets		
Cash and cash equivalents..	$ 306	$
Merchandise inventories..	941	
Assets of discontinued operations................................	2	
Other current assets...	90	
	1,339	1
Property and equipment, net......................................	626	
Deferred taxes...	233	
Goodwill and intangible assets...................................	222	
Assets of business transferred under contractual arrangement (note receivable)..................	-	
Other assets...	111	

	$ 2,531	$ 2
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 344	$
Accrued liabilities	254	
Current portion of repositioning and restructuring reserves	3	
Current portion of reserve for discontinued operations	15	
Liabilities of discontinued operations	3	
Current portion of long-term debt and obligations under capital leases	-	
	619	
Long-term debt and obligations under capital leases	358	
Liabilities of business transferred under contractual arrangement	-	
Other liabilities	401	
Shareholders' equity		
Common stock and paid-in capital: 141,986,116; 140,428,144 and 141,180,455 shares, respectively	381	
Retained earnings	980	
Accumulated other comprehensive loss	(206)	
Less: Treasury stock at cost: 185,220; 70,220 and 105,220 shares, respectively	(2)	
Total shareholders' equity	1,153	1
	$ 2,531	$ 2

See Accompanying Notes to Condensed Consolidated Financial Statements.

FOOT LOCKER, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(in millions, except per share amounts)

	Thirteen weeks ended	
	May 3, 2003	May 4, 2002
Sales	$ 1,128	$ 1,090
Costs and Expenses		
Cost of sales	783	770
Selling, general and administrative expenses	241	220
Depreciation and amortization	37	36
Interest expense, net	5	7

	1,066	1,033
Income from continuing operations before income taxes	62	57
Income tax expense	23	19
Income from continuing operations	39	38
Loss on disposal of discontinued operations	-	(18)
Cumulative effect of accounting change, net of income tax benefit of $-	(1)	-
Net income	$ 38	$ 20
Basic earnings per share:		
Income from continuing operations	$ 0.28	$ 0.27
Loss from discontinued operations	-	(0.13)
Cumulative effect of accounting change	(0.01)	-
Net income	$ 0.27	$ 0.14
Weighted-average common shares outstanding	141.1	140.1
Diluted earnings per share:		
Income from continuing operations	$ 0.27	$ 0.26
Loss from discontinued operations	-	(0.12)
Cumulative effect of accounting change	(0.01)	-
Net income	$ 0.26	$ 0.14
Weighted-average common shares assuming dilution	151.3	150.9

See Accompanying Notes to Condensed Consolidated Financial Statements.

FOOT LOCKER, INC.

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

	Thirteen weeks ended	
	May 3, 2003	May 4, 2002
Net income	$ 38	$ 20
Other comprehensive income		
Foreign currency translation adjustments arising during the period	5	10
Change in fair value of derivatives, net of tax of $-	2	-

Comprehensive income	$ 45	$ 30

See Accompanying Notes to Condensed Consolidated Financial Statements.

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FOOT LOCKER, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in millions)

	Thirteen wee
	May 3, 2003
From Operating Activities:	
Net income	$ 38
Adjustments to reconcile net income to net cash provided by (used in) operating activities of continuing operations:	
Loss on disposal of discontinued operations, net of tax	-
Cumulative effect of accounting change, net of tax	1
Depreciation and amortization	37
Deferred income taxes	10
Change in assets and liabilities:	
Merchandise inventories	(101)
Accounts payable and other accruals	58
Other, net	(54)
Net cash provided by (used in) operating activities of continuing operations	(11)
From Investing Activities:	
Lease acquisition costs	(6)
Capital expenditures	(25)
Net cash used in investing activities of continuing operations	(31)
From Financing Activities:	
Reduction in long-term debt and capital lease obligations	-
Issuance of common stock	1
Dividends paid	(4)
Net cash provided by (used in) financing activities of continuing operations	(3)
Net Cash used in Discontinued Operations	(2)
Effect of exchange rate fluctuations on Cash and Cash Equivalents	(4)
Net change in Cash and Cash Equivalents	(51)

Cash and Cash Equivalents at beginning of year	357
Cash and Cash Equivalents at end of interim period	$ 306
Cash paid during the period:	
Interest	$ -
Income taxes	$ 17

See Accompanying Notes to Condensed Consolidated Financial Statements.

FOOT LOCKER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Notes to Consolidated Financial Statements contained in the Registrant's Form 10-K for the year ended February 1, 2003, as filed with the Securities and Exchange Commission (the "SEC") on May 19, 2003. Certain items included in these statements are based on management's estimates. In the opinion of management, all material adjustments, which are of a normal recurring nature, necessary for a fair presentation of the results for the interim periods have been included. The results for the thirteen weeks ended May 3, 2003 are not necessarily indicative of the results expected for the year.

Goodwill and Intangible Assets

The Registrant adopted SFAS No. 142, "Goodwill and Other Intangible Assets" effective February 3, 2002, which requires that goodwill and intangible assets with indefinite lives no longer be amortized but reviewed for impairment if impairment indicators arise and, at a minimum, annually. Accordingly, the Registrant stopped amortizing goodwill in the first quarter of 2002. During the first quarter of 2003, the Registrant completed its annual review of goodwill, which did not result in an impairment charge.

Goodwill (in millions)	May 3, 2003	May 4, 2002	February 1,
Athletic Stores	$ 56	$ 55	$
Direct-to-Customers	80	80	
	$ 136	$ 135	$

Intangible Assets (in millions)	May 3, 2003	May 4, 2002	February 1,
Intangible assets not subject to amortization	$ 2	$ -	$

Intangible assets subject to amortization, net of accumulated amortization of $39 million, $35 million and $36 million, respectively	84	59	
	$ 86	$ 59	$
Total	$ 222	$ 194	$

Finite life intangible assets comprise lease acquisition costs, which are required to secure prime lease locations and other lease rights, primarily in Europe. The weighted-average amortization period as of May 3, 2003 was approximately 10 years. Amortization expense for lease acquisition costs was approximately $2 million for the first quarters of each of 2003 and 2002. Annual estimated amortization expense for lease acquisition costs is expected to be approximately $10 million for 2003 and each of the succeeding four years.

Intangible assets not subject to amortization relate to the Registrant's U.S. defined benefit retirement plan.

Derivative Financial Instruments

Ineffectiveness related to cash flow hedges and the change in fair value of derivative financial instruments designated as hedges reduced net income by $1 million during the quarter ended May 3, 2003, while the amount related to the quarter ended May 4, 2002 was not material.

During the quarters ended May 3, 2003 and May 4, 2002, the change in the fair value of derivative instruments not designated as hedges was not material.

The fair value of derivative contracts outstanding at May 3, 2003 comprised current assets of $3 million, non-current assets of $2 million and current liabilities of $12 million.

Asset Retirement Obligations

The Registrant adopted SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143") as of February 2, 2003. The statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate can be made. The carrying amount of the related long-lived asset shall be increased by the same amount as the liability and that amount will be amortized over the useful life of the underlying long-lived asset. The difference between the fair value and the value of the ultimate liability will be accreted over time using the credit-adjusted risk-free interest rate in effect when the liability is initially recognized. Asset retirement obligations of the Registrant may at any time include structural alterations to store locations and equipment removal costs from distribution centers required by certain leases. On February 2, 2003, the Registrant recorded a liability of $2 million for the expected present value of future retirement obligations, increased property and equipment by $1 million and recognized a $1 million after tax charge for the cumulative effect of the accounting change. The Registrant did not incur any additional asset retirement obligations during the first quarter of 2003, and accordingly, the amortization and accretion expenses recorded during the period were not material. Pro forma effects for the quarter ended May 4, 2002, assuming adoption of SFAS No. 143 as

of February 3, 2002, were not material to the liability, the net earnings or the per share amounts, and therefore, have not been presented.

Stock-Based Compensation

The Registrant accounts for stock-based compensation by applying APB No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"), as permitted by SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"). In accordance with APB No. 25, compensation expense is not recorded for options granted if the option price is not less than the quoted market price at the date of grant. Compensation expense is also not recorded for employee purchases of stock under the 1994 Stock Purchase Plan. The plan, which is compensatory as defined in SFAS No. 123, is non-compensatory as defined in APB No. 25. SFAS No. 123 requires disclosure of the impact on earnings per share if the fair value method of accounting for stock-based compensation is applied for companies electing to continue to account for stock-based plans under APB No. 25.

SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure an amendment of FASB Statement No. 123," which was issued in December 2002, provides alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based compensation and requires more prominent disclosure of the pro forma impact on earnings per share. As the Registrant has continued to account for stock-based compensation under APB No. 25, such disclosures are now required quarterly for interim periods beginning in 2003. Accounting for the Registrant's stock-based compensation, in accordance with the fair value method provisions of SFAS No. 123 would have resulted in the following:

(in millions, except per share amounts)	May 3, 2003	May 4, 2002
Net income, as reported:	$ 38	$ 20
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of income tax benefit	1	1
Pro forma net income	$ 37	$ 19
Basic earnings per share:		
As reported	$ 0.27	$ 0.14
Pro forma	$ 0.27	$ 0.13
Diluted earnings per share:		
As reported	$ 0.26	$ 0.14
Pro forma	$ 0.26	$ 0.13

The fair values of the issuance of the stock-based compensation pursuant to the Company's various stock option and purchase plans were estimated at the grant date using the Black-Scholes option pricing model.

Stock Option Plans	Stock Purcha

	May 3, 2003	May 4, 2002	May 3, 2003	M
Weighted-average risk free rate of interest	2.23%	4.25%	1.20%	
Expected volatility	37%	42%	31%	
Weighted-average expected award life	3.5 years	3.5 years	.7 years	
Dividend yield	1.2%	1.2%	-	
Weighted-average fair value	$ 2.75	$ 5.21	$ 2.83	$

The Black-Scholes option valuation model was developed for estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Because option valuation models require the use of subjective assumptions, changes in these assumptions can materially affect the fair value of the options, and because the Registrant's options do not have the characteristics of traded options, the option valuation models do not necessarily provide a reliable measure of the fair value of its options.

Discontinued Operations

On January 23, 2001, the Registrant announced that it was exiting its 694 store Northern Group segment. The Registrant recorded a charge to earnings of $252 million before-tax, or $294 million after-tax, in 2000 for the loss on disposal of the segment. Major components of the charge included expected cash outlays for lease buyouts and real estate disposition costs of $68 million, severance and personnel related costs of $23 million and operating losses and other exit costs from the measurement date through the expected date of disposal of $24 million. Non-cash charges included the realization of a $118 million currency translation loss, resulting from the movement in the Canadian dollar during the period the Registrant held its investment in the

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segment and asset write-offs of $19 million. The Registrant also recorded a tax benefit for the liquidation of the Northern U.S. stores of $42 million, which was offset by a valuation allowance of $84 million to reduce the deferred tax assets related to the Canadian operations to an amount that is more likely than not to be realized.

In the first quarter of 2001, the Registrant recorded a tax benefit of $5 million as a result of the implementation of tax planning strategies related to the discontinuance of the Northern Group. During the second quarter of 2001, the Registrant completed the liquidation of the 324 stores in the United States and recorded a charge to earnings of $12 million before-tax, or $19 million after-tax. The charge comprised the write-down of the net assets of the Canadian business to their net realizable value pursuant to the then pending transaction, which was partially offset by reduced severance costs as a result of the transaction and favorable results from the liquidation of the U.S. stores and real estate disposition activity. On September 28, 2001, the Registrant completed the stock transfer of the 370 Northern Group stores in Canada, through one of its wholly-owned subsidiaries for approximately CAD$59 million (approximately US$38 million), which was paid in the form of a note (the "Note"). The purchaser agreed to obtain a revolving line of credit with a lending institution, satisfactory to the Registrant, in an amount not less than CAD$25 million (approximately US$17 million). Another wholly-owned subsidiary of the Registrant was the assignor of the store leases involved in the transaction and therefore retains potential liability for such leases. The Registrant also entered into a credit agreement with the purchaser to provide a revolving credit facility to be used to fund its working capital needs, up to a maximum of CAD$5

million (approximately US$3 million). The net amount of the assets and liabilities of the former operations was written down to the estimated fair value of the Note, approximately US$18 million. The transaction was accounted for pursuant to SEC Staff Accounting Bulletin Topic 5:E "Accounting for Divestiture of a Subsidiary or Other Business Operation," ("SAB Topic 5:E") as a "transfer of assets and liabilities under contractual arrangement" as no cash proceeds were received and the consideration comprised the Note, the repayment of which is dependent on the future successful operations of the business. The assets and liabilities related to the former operations were presented under the balance sheet captions as "Assets of business transferred under contractual arrangement (note receivable)" and "Liabilities of business transferred under contractual arrangement."

In the fourth quarter of 2001, the Registrant further reduced its estimate for real estate costs by $5 million based on then current negotiations, which was completely offset by increased severance, personnel and other disposition costs.

The Registrant recorded a charge of $18 million in the first quarter of 2002 reflecting the poor performance of the Northern Group stores in Canada since the date of the transaction. There was no tax benefit recorded related to the $18 million charge, which comprised a valuation allowance in the amount of the operating losses incurred by the purchaser and a further reduction in the carrying value of the net amount of the assets and liabilities of the former operations to zero, due to greater uncertainty with respect to the collectibility of the Note. This charge was recorded pursuant to SAB Topic 5:E, which requires accounting for the Note in a manner somewhat analogous to equity accounting for an investment in common stock.

In the third quarter of 2002, the Registrant recorded a charge of approximately $1 million before-tax for lease exit costs in excess of previous estimates. In addition, the Registrant recorded a tax benefit of $2 million, which also reflected the impact of the tax planning strategies implemented related to the discontinuance of the Northern Group.

On December 31, 2002, the Registrant-provided revolving credit facility expired, without having been used. Furthermore, the operating results of Northern Canada had significantly improved during the year such that the Registrant had reached an agreement in principle to receive CAD$5 million (approximately US$3 million) cash consideration in partial prepayment of the Note and accrued interest due and agreed to reduce the face value of the Note to CAD$17.5 million (approximately US$12 million). Based upon the improved results of the Northern Canada business, the Registrant believes there is no substantial uncertainty as to the amount of the future costs and expenses that could be payable by the Registrant. As indicated above, as the assignor of the Northern Canada leases, a wholly-owned subsidiary of the Registrant remains secondarily liable under those leases. As of May 3, 2003, the Registrant estimates that its gross contingent lease liability is between CAD$83

to $89 million (approximately US$58 to $62 million). Based upon its assessment of the risk of having to satisfy that liability and the resultant possible outcomes of lease settlement, the Registrant currently estimates the expected value of the lease liability to be approximately US$2 million. The Registrant believes that it is unlikely that it would be required to make such contingent payments, and further, such contingent obligations would not be expected to have a material effect on the Registrant's consolidated financial position, liquidity or results of operations. As a result of the aforementioned developments, during the fourth quarter of 2002 circumstances changed sufficiently such that it

became appropriate to recognize the transaction as an accounting divestiture.

During the fourth quarter of 2002, as a result of the accounting divestiture, the Note was recorded in the financial statements at its estimated fair value of CAD$16 million (approximately US$10 million). The Registrant, with the assistance of an independent third party, determined the estimated fair value by discounting expected cash flows at an interest rate of 18 percent. This rate was selected considering such factors as the credit rating of the purchaser, rates for similar instruments and the lack of marketability of the Note. As the net assets of the former operations were previously written down to zero, the fair value of the Note was recorded as a gain on disposal within discontinued operations. There was no tax expense recorded related to this gain. The Registrant ceased presenting the assets and liabilities of Northern Canada as "Assets of business transferred under contractual arrangement (note receivable)" and "Liabilities of business transferred under contractual arrangement," and has recorded the Note initially at its estimated fair value. At May 3, 2003 and February 1, 2003, US$4 million is classified as a current receivable with the remainder classified as long term within other assets in the accompanying Condensed Consolidated Balance Sheet.

Future adjustments, if any, to the carrying value of the Note will be recorded pursuant to SEC Staff Accounting Bulletin Topic 5:Z:5, "Accounting and Disclosure Regarding Discontinued Operations," which requires changes in the carrying value of assets received as consideration from the disposal of a discontinued operation to be classified within continuing operations. Interest and accretion income will also be recorded within continuing operations. The Registrant will recognize an impairment loss when, and if, circumstances indicate that the carrying value of the Note may not be recoverable. Such circumstances would include a deterioration in the business, as evidenced by significant operating losses incurred by the purchaser or nonpayment of an amount due under the terms of the Note.

As the stock transfer on September 28, 2001 was accounted for in accordance with SAB Topic 5:E, a disposal was not achieved pursuant to APB No. 30. If the Registrant had applied the provisions of Emerging Issues Task Force 90-16, "Accounting for Discontinued Operations Subsequently Retained" ("EITF 90-16"), prior reporting periods would not be restated, accordingly reported net income would not have changed. However, the results of operations of the Northern business segment in all prior periods would have been reclassified from discontinued operations to continuing operations. The incurred loss on disposal at September 28, 2001 would continue to be classified as discontinued operations, however, the remaining accrued loss on disposal at this date, of U.S. $24 million, primarily relating to the lease liability of the Northern U.S. business, would have been reversed as part of discontinued operations. Since the liquidation of this business was complete, this liability would have been recorded in continuing operations in the same period pursuant to EITF 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." With respect to Northern Canada, the business was legally sold as of September 28, 2001 and thus operations would no longer be recorded, but instead the business would be accounted for pursuant to SAB Topic 5:E. In the first quarter of 2002, the $18 million charge recorded within discontinued operations would have been classified as continuing operations. Similarly, the $1 million benefit recorded in the third quarter of 2002 would also have been classified as continuing operations. Having achieved divestiture accounting in the fourth quarter of 2002 and applying the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Registrant would have then reclassified all prior periods' results of the Northern Group to discontinued operations. Reported net income in each of the periods would not have changed and therefore the Registrant did not amend any of its prior filings.

The remaining reserve balance of $6 million at May 3, 2003 is expected to be utilized within twelve months.

NORTHERN GROUP (in millions)

	Balance 2/1/2003	Net Usage	Charge/ (Income)	Balance 5/3/2003
Real estate & lease liabilities	$ 6	$ (1)	$ -	$ 5
Other costs	1	-	-	1
Total	$ 7	$ (1)	$ -	$ 6

In 1998, the Registrant exited both its International General Merchandise and Specialty Footwear segments. In 1997, the Registrant announced that it was exiting its Domestic General Merchandise segment. The successor-assignee of the leases of a former business included in the Domestic General Merchandise segment filed a petition in bankruptcy during 2002, and rejected in the bankruptcy proceeding 15 leases it originally acquired from a subsidiary of the Registrant. There are currently several actions pending against this subsidiary by former landlords for the lease obligations. In the fourth quarter of 2002, the Registrant recorded a charge of $1 million after-tax related to certain actions. The Registrant estimates the gross contingent lease liability related to the remaining actions as approximately $9 million. The Registrant believes that it may have valid defenses, however as these actions are in the preliminary stage of proceedings, their outcome cannot be predicted with any degree of certainty.

The remaining reserve balances for these three discontinued segments totaled $18 million as of May 3, 2003, $9 million of which is expected to be utilized within twelve months and the remaining $9 million thereafter.

Disposition activity related to the reserves is presented below:

(in millions)
INTERNATIONAL GENERAL MERCHANDISE

	Balance 2/1/2003	Net Usage	Charge/ (Income)	Balance 5/3/2003
Woolco	$ 1	$ (1)	$ -	$ -
The Bargain! Shop	6	-	-	6
	$ 7	$ (1)	$ -	$ 6

SPECIALTY FOOTWEAR

	Balance 2/1/2003	Net Usage	Charge/ (Income)	Balance 5/3/2003
Real estate & lease liabilities	$ 2	$ -	$ -	$ 2
Other costs	1	-	-	1
Total	$ 3	$ -	$ -	$ 3

DOMESTIC GENERAL MERCHANDISE

	Balance 2/1/2003	Net Usage	Charge/ (Income)	Balance 5/3/2003
Real estate & lease liabilities	$ 7	$ -	$ -	$ 7
Legal and other costs	3	(1)	-	2
Total	$ 10	$ (1)	$ -	$ 9

The following is a summary of the assets and liabilities of discontinued operations:

(in millions)	NORTHERN GROUP	SPECIALTY FOOTWEAR	DOMESTIC GENERAL MERCHANDIS
5/3/2003			
Assets	$ -	$ -	$
Liabilities	1	-	
Net liabilities of discontinued operations	$ (1)	$ -	$
5/4/2002			
Assets	$ -	$ 1	$
Liabilities	2	1	
Net liabilities of discontinued operations	$ (2)	$ -	$
2/1/2003			
Assets	$ -	$ -	$
Liabilities	1	-	
Net liabilities of discontinued operations	$ (1)	$ -	$

The Northern Group assets and liabilities of discontinued operations primarily comprised the Northern Group stores in the U.S. The net assets of the Specialty Footwear and Domestic General Merchandise segments consist primarily of fixed assets and accrued liabilities.

Restructuring Programs

1999 Restructuring

Total restructuring charges of $96 million before-tax were recorded in 1999 for the Registrant's restructuring program to sell or liquidate non-core businesses. The restructuring plan also included an accelerated store-closing program in the United States and Asia, corporate headcount reduction and a distribution center shutdown. The disposition of all non-core businesses was completed by November 2001. The remaining reserve balance at May 3, 2003 totaled $1 million, which is expected to be utilized within twelve months.

The Registrant sold The San Francisco Music Box Company ("SFMB") in 2001; however, the Registrant remains as an assignor or guarantor of leases of SFMB related to a distribution center and five store locations. In May 2003, SFMB filed a voluntary petition under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the District of Delaware. If all of the specified leases are rejected in bankruptcy, the Registrant estimates its gross contingent lease liability for these leases to be approximately $5 million. The Registrant expects to be able to determine more accurately its lease liability exposure as the SFMB bankruptcy proceeding progresses.

1993 Repositioning and 1991 Restructuring

The Registrant recorded charges of $558 million in 1993 and $390 million in 1991 to reflect the anticipated costs to sell or close under-performing specialty and general merchandise stores in the United States and Canada. Under the 1993 repositioning program, approximately 970 stores were identified for closing. Approximately 900 stores were closed under the 1991 restructuring program. The remaining reserve balance of $2 million at May 3, 2003 comprises future lease obligations and is expected to be substantially utilized within twelve months.

Disposition activity related to the reserves within the restructuring programs is presented below.

1999 Restructurings
(in millions)

	Balance 2/1/2003	Net Usage	Charge/ (Income)	Balance 5/3/2003
Real estate	$ 1	$ -	$ -	$ 1

1993 Repositioning and 1991 Restructuring
(in millions)

	Balance 2/1/2003	Net Usage	Charge/ (Income)	Balance 5/3/2003
Real estate	$ 1	$ -	$ -	$ 1
Other disposition costs	1	-	-	1
Total	$ 2	$ -	$ -	$ 2

Total Restructuring Reserves
(in millions)

	Balance 2/1/2003	Net Usage	Charge/ (Income)	Balance 5/3/2003
Real estate	$ 2	$ -	$ -	$ 2
Other disposition costs	1	-	-	1
Total	$ 3	$ -	$ -	$ 3

Earnings Per Share

Basic earnings per share is computed as net earnings divided by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur from common shares issuable through stock-based compensation including stock options and the conversion of convertible long-term debt. The following table reconciles the numerator and denominator used to compute basic and diluted earnings per share for continuing operations.

(in millions)	Thirteen May 3, 2003
Numerator:	
Income from continuing operations	$ 39
Effect of Dilution:	
Convertible debt	1
Income from continuing operations assuming dilution	$ 40
Denominator:	
Weighted-average common shares outstanding	141.1
Effect of Dilution:	
Stock options and awards	0.7
Convertible debt	9.5
Weighted-average common shares assuming dilution	151.3

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Options to purchase 6.8 million and 1.8 million shares of common stock were not included in the computation for the thirteen weeks ended May 3, 2003 and May 4, 2002, respectively, because the exercise price of the options was greater than the average market price of the common shares and, therefore, the effect would be antidilutive.

Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss was comprised of the following:

	May 3, 2003	May 4, 2002	February 1, 2003
Foreign currency translation adjustments	$ (10)	$ (43)	$ (15)
Minimum pension liability adjustment	(198)	(115)	(198)
Changes in the fair value of derivatives designated as hedges	2	-	-
	$ (206)	$ (158)	$ (213)

Segment Information

Sales and operating results for the Registrant's reportable segments for the thirteen weeks ended May 3, 2003 and May 4, 2002, respectively, are presented below. Operating profit before corporate expense, net reflects income from continuing operations before income taxes, corporate expense, non-operating income and net interest expense.

Sales:
(in millions)

	Thirteen weeks end	
	May 3, 2003	May 4
Athletic Stores...	$ 1,041	$
Direct-to-Customers...	87	
Total sales	$ 1,128	$

Operating Results:
(in millions)

	Thirteen weeks end	
	May 3, 2003	May 4
Stores	$ 75	$
Direct-to-Customers	9	
Operating profit before corporate expense, net	84	
Corporate expense, net	17	
Operating profit	67	
Interest expense, net	5	
Income from continuing operations before income taxes	$ 62	$

Recently Issued Accounting Pronouncements

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." In general, SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003. The Registrant does not expect the adoption of SFAS No. 149 to have a significant impact on its financial position and results of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Among other things, the statement does not affect the classification or measurement of convertible bonds, puttable stock, or other outstanding shares that are conditionally redeemable. This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The statement is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of the Statement and still existing at the beginning of the interim period of adoption. The Registrant is currently evaluating the impact that the adoption of the statement may have on its financial position and results of operations.

Subsequent Event

On May 6, 2003, the amendments to the Northern Note were executed and a cash payment of CAD$5.2 million (approximately US$3.5 million) was received representing principal and interest through the date of the amendment. After taking into account this payment, the remaining principal due under the Note was reduced to CAD$17.5 million (approximately US$12 million). Under the terms of the renegotiated Note, a principal payment of CAD$1 million is due January 15,

2004. An accelerated principal payment of CAD$1 million may be due if certain events occur. The remaining amount of the Note is required to be repaid upon the occurrence of "payment events," as defined in the purchase agreement, but no later than September 28, 2008. Interest is payable semiannually and began to accrue on May 1, 2003 at a rate of 7.0 percent per annum.

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

All references to comparable-store sales for a given period relate to sales of stores that are open at the period-end and that have been open for more than one year. Accordingly, stores opened and closed during the period are not included. All comparable-store sales increases and decreases exclude the impact of foreign currency fluctuations.

RESULTS OF OPERATIONS

Sales of $1,128 million for the first quarter of 2003 increased 3.5 percent from sales of $1,090 million for the first quarter of 2002. Excluding the impact of foreign currency fluctuations, sales increased 0.1 percent as compared with the corresponding prior-year period. Comparable-store sales declined by 2.5 percent.

Gross margin, as a percentage of sales, of 30.6 percent in the first quarter of 2003 improved by 120 basis points as compared with 29.4 percent in the corresponding prior-year period. This improvement was primarily driven by a decrease in markdowns, as a percentage of sales, that were required in the prior-year period to sell certain slow-moving merchandise, in addition to a reduction in the cost of merchandise, as a percentage of sales, which reflected better merchandise purchasing. Inventory levels at May 3, 2003 are in line with the Registrant's plan.

Selling, general and administrative expenses ("SG&A") of $241 million increased by $21 million or 9.5 percent in the first quarter of 2003 as compared with the corresponding prior-year period, which primarily related to new store openings and remodelings across several formats and the impact of foreign currency fluctuations primarily related to the euro.

Depreciation and amortization increased by $1 million in the first quarter of 2003 to $37 million compared with $36 million for the first quarter of 2002.

Operating profit before corporate expense, net increased by $7 million, or 9.1 percent, to $84 million in 2003. This increase is primarily due to lower markdowns as compared with the prior-year period that were required to sell certain slow-moving merchandise and better merchandise purchasing. The Internet business continued to grow rapidly which also contributed to the increase. Total operating profit before corporate expense, net, as a percentage of sales, was 7.4 percent in 2003 and 7.1 percent in 2002.

Net interest expense of $5 million decreased by $2 million for the thirteen weeks ended May 3, 2003 as compared with the corresponding prior-year period. Interest expense decreased to $7 million for the thirteen weeks ended May 3, 2003 from $8 million for the thirteen weeks ended May 4, 2002. The decrease was primarily related to savings obtained from $100 million of interest rate swaps that the Registrant entered into, during the fourth quarter of 2002 and during the first quarter of 2003, to convert the fixed interest rate on the 8.5 percent debentures to a floating rate instrument. The decrease was also

attributed to the repayment in October 2002 of the remaining $32 million of the $40 million 7.0 percent medium-term notes. Interest income increased to $2 million for the thirteen weeks ended May 3, 2003 from $1 million for the thirteen weeks ended May 4, 2002. The increase in the first quarter of 2003 was primarily related to the recognition of interest and accretion income related to the Northern Note.

The Registrant's effective tax rate for the thirteen weeks ended May 3, 2003 was approximately 36 percent as compared with approximately 34 percent for the corresponding prior-year period. The effective tax rate during the first quarter of 2003 was lower than expected due to the impact of state tax law changes and a higher proportion of earnings being attributed to lower tax jurisdictions. During the first quarter of 2002, the Registrant recorded a $3 million tax benefit related to a multi-state tax planning strategy, which reduced the effective tax rate for the thirteen weeks ended May 4, 2002 to approximately 34 percent. This tax planning strategy resulted in a reduction in the valuation allowance. The Registrant expects its effective tax rate to approximate 37 percent for the remainder of 2003.

Income from continuing operations of $39 million, or $0.27 per diluted share, for the thirteen weeks ended May 3, 2003, improved by $0.01 per diluted share from $38 million for the thirteen weeks ended May 4, 2002. For the quarter ended May 3, 2003, the Registrant reported net income of $38 million, or $0.26 per diluted share, compared with net income of $20 million, or $0.14 per diluted share for the corresponding prior-year period. The first quarter of 2003 included an after-tax charge of $1 million, or $0.01 per diluted share, related to the adoption of SFAS No. 143, which was reflected as a cumulative effect of an accounting change. The first quarter of 2002 included a loss in discontinued operations related to its Northern Group segment of $18 million, or $0.12 per diluted share.

STORE COUNT

At May 3, 2003, the Registrant operated 3,600 stores, as compared with 3,625 at February 1, 2003. During the quarter ended May 3, 2003, the Registrant opened 17 stores, closed 42 stores and remodeled/relocated 60 stores.

SALES

The following table summarizes sales by segment:

	Thirteen weeks ended	
	May 3, 2003	May 4, 2002
(in millions)		
Athletic Stores............................	$ 1,041	$ 1,006
Direct-to-Customers........................	87	84
Total sales	$ 1,128	$ 1,090

The total increase in sales was primarily driven by Foot Locker Europe's strong sales performance. Sales in the primarily mall-based U.S. Foot

Locker formats declined primarily due to the general downturn in the retail industry coupled with unseasonably colder weather. This resulted in an overall decline of 2.5 percent in comparable-store sales.

Athletic Stores sales increased by 3.5 percent primarily due to the strength of the euro's performance against the U.S. dollar in the first quarter of 2003. Excluding the effect of foreign currency fluctuations, sales increased 0.3 percent. Comparable-store sales decreased 2.9 percent. Most of the international formats, Foot Locker Europe in particular, continued to achieve strong sales in the first quarter of 2003 and produced mid-single digit comparable-store sales increases. During the first quarter of 2003, the basketball category and the continuing current trend of classic shoes led footwear sales across most of the Athletic Store formats. Apparel sales, including both licensed and private label categories were particularly strong during the thirteen weeks ended May 3, 2003. Sales for the prior-year period ended May 4, 2002 were primarily led by footwear, basketball in particular.

Management expects the current trend of classic footwear and licensed apparel to continue to be strong performers throughout the balance of 2003 and into 2004. The Registrant accelerated the receipt of inventory during the first quarter of 2003 to accommodate this expected continuing trend as well as to support the growth of Foot Locker Europe.

Direct-to-Customers sales increased by 3.6 percent for the thirteen weeks ended May 3, 2003 as compared with the corresponding prior-year period. Internet sales increased by 27.3 percent for the thirteen weeks ended May 3, 2003 to $42 million as compared with the corresponding period in the prior year. This increase in Internet sales was partially offset by a decline in catalog sales, reflecting the continuing trend of the Registrant's customers to browse and select products through its catalogs and then make their purchases via the Internet. During the first quarter of 2003, the Registrant entered into an arrangement with the NBA and Amazon.com whereby Foot Locker will provide the fulfillment of products for NBA apparel sold over the Internet at NBAstore.com and the NBA store on Amazon.com.

OPERATING RESULTS

Operating profit before corporate expense, net reflects income from continuing operations before income taxes, corporate expense, non-operating income and net interest expense.

	Thirteen weeks ended	
	May 3, 2003	May 4, 2002
Athletic Stores	$ 75	$ 69
Direct-to-Customers	9	8
Operating profit before corporate expense, net	84	77
Corporate expense, net	17	13
Operating profit	67	64
Interest expense, net	5	7
Income from continuing operations before income taxes	$ 62	$ 57

Athletic Stores operating profit before corporate expense, net

increased by 8.7 percent for the first quarter of 2003 as compared with the corresponding prior-year period. The increase in the first quarter of 2003 is primarily a result of the increased gross margin rate due to fewer markdowns taken in the first quarter of 2003 as compared with the prior-year period in addition to better merchandise purchasing. The first quarter of 2002 reflected an increase in markdowns taken to sell slow-moving marquee product, which were offset, in part, by operating expense reductions. Operating profit before corporate expense, net, as a percentage of sales, increased to 7.2 percent in the first quarter of 2003 from 6.9 percent in the corresponding prior-year period.

Direct-to-Customers operating profit before corporate expense, net increased slightly for the thirteen weeks ended May 3, 2003, as compared with the corresponding period ended May 4, 2002. Operating profit before corporate expense, net, as a percentage of sales, increased to 10.3 percent in the first quarter of 2003 from 9.5 percent in the corresponding prior-year period.

STRATEGIC DISPOSITIONS AND REPOSITIONINGS

Discontinued operations

On January 23, 2001, the Registrant announced that it was exiting its 694 store Northern Group segment. The Registrant recorded a charge to earnings of $252 million before-tax, or $294 million after-tax, in 2000 for the loss on disposal of the segment. Major components of the charge included expected cash outlays for lease buyouts and real estate disposition costs of $68 million, severance and personnel related costs of $23 million and operating losses and other exit costs from the measurement date through the expected date of disposal of $24 million. Non-cash charges included the realization of a $118 million currency translation loss, resulting from the movement in the Canadian dollar during the period the Registrant held its investment in the segment and asset write-offs of $19 million. The Registrant also recorded a tax benefit for the liquidation of the Northern U.S. stores of $42 million, which was offset by a valuation allowance of $84 million to reduce the deferred tax assets related to the Canadian operations to an amount that is more likely than not to be realized.

In the first quarter of 2001, the Registrant recorded a tax benefit of $5 million as a result of the implementation of tax planning strategies related to the discontinuance of the Northern Group. During the second quarter of 2001, the Registrant completed the liquidation of the 324 stores in the United States and recorded a charge to earnings of $12 million before-tax, or $19 million after-tax. The charge comprised the write-down of the net assets of the Canadian business to their net realizable value pursuant to the then pending transaction, which was partially offset by reduced severance costs as a result of the transaction and favorable results from the liquidation of the U.S. stores and real estate disposition activity. On September 28, 2001, the Registrant completed the stock transfer of the 370 Northern Group stores in Canada, through one of its wholly-owned subsidiaries for approximately CAD$59 million (approximately US$38 million), which was paid in the form of a note (the "Note"). The purchaser operates the Northern Group stores, from which the repayment of the Note will be made. The net amount of the assets and liabilities of the former operations was written down to the estimated fair value of the note, approximately US$18 million. The transaction was accounted for pursuant to SEC Staff Accounting Bulletin Topic 5:E "Accounting for Divestiture of a Subsidiary or Other Business Operation," as a "transfer of assets and liabilities under contractual arrangement" as no cash proceeds were received and the consideration comprised the Note, the repayment of which is dependent on the

future successful operations of the business. The assets and liabilities related to the former operations were presented under the balance sheet captions as "Assets of business transferred under contractual arrangement (note receivable)" and "Liabilities of business transferred under contractual arrangement" at May 4, 2002.

In the fourth quarter of 2001, the Registrant further reduced its estimate for real estate costs by $5 million based on then current negotiations, which was completely offset by increased severance, personnel and other disposition costs.

The Registrant recorded a charge of $18 million in the first quarter of 2002 reflecting the poor performance of the Northern Group stores in Canada since the date of the transaction. There was no tax benefit recorded related to the $18 million charge, which comprised a valuation allowance in the amount of the operating losses incurred by the purchaser and a further reduction in the carrying value of the net amount of the assets and liabilities of the former operations to zero, due to greater uncertainty with respect to the collectibility of the Note. This charge was recorded pursuant to SAB Topic 5:E, which requires accounting for the Note in a manner somewhat analogous to equity accounting for an investment in common stock.

In the third quarter of 2002, the Registrant recorded a charge of approximately $1 million before-tax for lease exit costs in excess of previous estimates. In addition, the Registrant recorded a tax benefit of $2 million, which also reflected the impact of the tax planning strategies implemented related to the discontinuance of the Northern Group.

On December 31, 2002, the Registrant-provided revolving credit facility expired, without having been used. Furthermore, the operating results of Northern Canada had significantly improved during the year such that the Registrant had reached an agreement in principle to receive CAD$5 million (approximately US$3 million) cash consideration in partial prepayment of the Note and accrued interest due and agreed to reduce the face value of the Note to CAD$17.5 million (approximately US$12 million). Based upon the improved results of the Northern Canada business, the Registrant believes there is no substantial uncertainty as to the amount of the future costs and expenses that could be payable by the Registrant. As indicated above, as the assignor of the Northern Canada leases, a wholly-owned subsidiary of the Registrant remains secondarily liable under those leases. As of May 3, 2003, the Registrant estimates that its gross contingent lease liability is between CAD$82 to $89 million (approximately US$58 to $62 million). Based upon its assessment of the risk of having to satisfy that liability and the resultant possible outcomes of lease settlement, the Registrant currently estimates the expected value of the lease liability to be approximately US$2 million. The Registrant believes that it is unlikely that it would be required to make such contingent payments, and further, such contingent obligations would not be expected to have a material effect on the Registrant's consolidated financial position, liquidity or results of operations. As a result of the aforementioned developments, during the fourth quarter of 2002 circumstances changed sufficiently such that it became appropriate to recognize the transaction as an accounting divestiture.

During the fourth quarter of 2002, as a result of the accounting divestiture, the Note was recorded in the financial statements at its estimated fair value of CAD$16 million (approximately US$10 million). The Registrant, with the assistance of an independent third party, determined the estimated fair value by discounting expected cash flows at an interest rate of 18 percent. This rate was selected considering such factors as the credit rating of the

purchaser, rates for similar instruments and the lack of marketability of the Note. As the net assets of the former operations were previously written down to zero, the fair value of the Note was recorded as a gain on disposal within discontinued operations. There was no tax expense recorded related to this gain. The Registrant ceased presenting the assets and liabilities of Northern Canada as "Assets of business transferred under contractual arrangement (note receivable)" and "Liabilities of business transferred under contractual arrangement," and has recorded the Note initially at its estimated fair value. At May 3, 2003 and February 1, 2003, US$4 million is classified as a current receivable with the remainder classified as long term within other assets in the accompanying Condensed Consolidated Balance Sheet. On May 6, 2003, the amendments to the Note were executed and a cash payment of CAD$5.2 million (approximately US$3.5 million) was received representing principal and interest through the date of the amendment. After taking into account this payment, the remaining principal due under the Note was reduced to CAD$17.5 million (approximately US$12 million). Under the terms of the renegotiated Note, a principal payment of CAD$1 million is due January 15, 2004. An accelerated principal payment of CAD$1 million may be due if certain events occur. The remaining amount of the Note is required to be repaid upon the occurrence of "payment events," as defined in the purchase agreement, but no later than September 28, 2008. Interest is payable semiannually and began to accrue on May 1, 2003 at a rate of 7.0 percent per annum.

Future adjustments, if any, to the carrying value of the Note will be recorded pursuant to SEC Staff Accounting Bulletin Topic 5:Z:5, "Accounting and Disclosure Regarding Discontinued Operations," which requires changes in the carrying value of assets received as consideration from the disposal of a discontinued operation to be classified within continuing operations. Interest and accretion income will also be recorded within continuing operations. The Registrant will recognize an impairment loss when, and if, circumstances indicate that the carrying value of the Note may not be recoverable. Such circumstances would include a deterioration in the business, as evidenced by significant operating losses incurred by the purchaser or nonpayment of an amount due under the terms of the Note.

1999 Restructuring

Total restructuring charges of $96 million before-tax were recorded in 1999 for the Registrant's restructuring program to sell or liquidate non-core businesses. The restructuring plan also included an accelerated store-closing program in the United States and Asia, corporate headcount reduction and a distribution center shutdown. The disposition of all non-core businesses was completed by November 2001. The remaining reserve balance at May 3, 2003 totaled $1 million, which is expected to be utilized within twelve months.

The Registrant sold The San Francisco Music Box Company ("SFMB") in 2001; however, the Registrant remains as an assignor or guarantor of leases of SFMB related to a distribution center and five store locations. In May 2003, SFMB filed a voluntary petition under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the District of Delaware. If all of the specified leases are rejected in bankruptcy, the Registrant estimates its gross contingent lease liability for these leases to be approximately $5 million. The Registrant expects to be able to determine more accurately its lease liability exposure as the SFMB bankruptcy proceeding progresses.

1993 Repositioning and 1991 Restructuring

The Registrant recorded charges of $558 million in 1993 and $390

million in 1991 to reflect the anticipated costs to sell or close under-performing specialty and general merchandise stores in the United States and Canada. Under the 1993 repositioning program, approximately 970 stores were identified for closing. Approximately 900 stores were closed under the 1991 restructuring program. The remaining reserve balance of $2 million at May 3, 2003 comprises future lease obligations and is expected to be substantially utilized within twelve months.

LIQUIDITY AND CAPITAL RESOURCES

Generally, the Registrant's primary sources of cash have been from operations. The Registrant has a $190 million revolving credit facility available through June 2004. Other than $22 million to meet letter of credit requirements, this revolving credit facility was not used during the first quarter of 2003. The Registrant generally finances real estate with operating leases. The principal use of cash has been to finance inventory requirements, capital expenditures related to store openings, store remodelings and management information systems, and to fund other general working capital requirements.

Net cash used in operating activities of continuing operations was $11 million for the thirteen weeks ended May 3, 2003. Operating activities provided cash of $93 million for the thirteen weeks ended May 4, 2002. These amounts reflect the income from continuing operations adjusted for non-cash items and working capital changes. The decrease in cash from operations was due to working capital changes. The Registrant made a $50 million contribution to its U.S. qualified retirement plan in February 2003, in advance of ERISA funding requirements. The first quarter of 2003 resulted in net cash outflows for both merchandise inventories and accounts payable and accrued liabilities whereas the first quarter of 2002 increase in merchandise inventories was more than offset by the increase in accounts payable and accrued liabilities.

Net cash used in investing activities of continuing operations of $31 million and $28 million for the first quarters of 2003 and 2002, respectively, reflected capital expenditures and lease acquisition costs. Total projected capital expenditures of $143 million for 2003 comprise $87 million for new store openings and modernizations of existing stores, $38 million for the development of information systems and other support facilities and lease acquisition costs of $18 million, primarily related to the Registrant's European operations. The Registrant has the ability to revise and reschedule the anticipated capital expenditure program should the Registrant's financial position require it.

Financing activities for the Registrant's continuing operations used cash of $3 million for the thirteen weeks ended May 3, 2003 compared with cash provided by financing activities of $2 million for the thirteen weeks ended May 4, 2002. The Registrant declared and paid a $0.03 per share dividend during the first quarter of 2003 totaling $4 million. Management believes operating cash flows and current credit facilities will be adequate to finance its working capital requirements, to make scheduled pension contributions for the Registrant's retirement plans, to fund quarterly dividend payments and support the development of its short-term and long-term strategies.

Net cash used in discontinued operations includes the change in assets and liabilities of the discontinued segments and disposition activity charged to the reserves for both periods presented.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

The Registrant adopted SFAS No. 143, "Accounting for Asset Retirement

Obligations" as of February 2, 2003. The statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate can be made. The carrying amount of the related long-lived asset shall be increased by the same amount as the liability and that amount will be amortized over the useful life of the underlying long-lived asset. The difference between the fair value and the value of the ultimate liability will be accreted over time using the credit-adjusted risk-free interest rate in effect when the liability is initially recognized. Asset retirement obligations of the Registrant may at any time include structural alterations to store locations and equipment removal obligations from distribution centers required by certain leases. On February 2, 2003, the Registrant recorded a liability of $2 million for the expected present value of future retirement obligations, increased property and equipment by $1 million and recognized a $1 million after tax charge for the cumulative effect of the accounting change. The Registrant did not incur any additional asset retirement costs during the first quarter of 2003, and accordingly, the amortization and accretion expenses recorded during the period were immaterial.

RECENTLY ISSUED PRONOUNCEMENTS

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." In general, SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003. The Registrant does not expect the adoption of SFAS No. 149 to have a significant impact on its financial position and results of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Among other things, the statement does not affect the classification or measurement of convertible bonds, puttable stock, or other outstanding shares that are conditionally redeemable. This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The statement is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of the Statement and still existing at the beginning of the interim period of adoption. The Registrant is currently evaluating the impact that the adoption of the statement may have on its financial position and results of operations.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements within the meaning of the federal securities laws. All statements, other than statements of historical facts, which address activities, events or developments that the Registrant expects or anticipates will or may occur in the future, including, but not limited to, such things as future capital expenditures, expansion, strategic plans, dividend payments, stock re-purchases, growth of the Registrant'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 including, but not limited to, 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 Registrant's reliance on a few key vendors for a majority of its merchandise purchases (including a significant portion from one key vendor), unseasonable weather, risks associated with foreign global sourcing, including political instability, changes in import regulations and the presence of severe acute respiratory syndrome, economic conditions worldwide, 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, and the ability of the Company to execute its business plans effectively with regard to each of its business units, including its plans for the marquee and launch footwear component of its business. 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 Registrant's Principal Executive Officer and Principal Financial Officer have evaluated the effectiveness of the Registrant's disclosure controls and procedures, as such term is defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended, within the 90-day period prior to the filing of this report. Based on that evaluation, the Principal Executive Officer and the Principal Financial Officer concluded that the disclosure controls and procedures are effective in ensuring that all material information required to be included in this quarterly report has been made known to them in a timely fashion.

There have been no significant changes in the Registrant's internal controls, or in the factors that could significantly affect internal controls, subsequent to the date the Principal Executive Officer and the Principal Financial Officer completed their evaluation.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The only legal proceedings pending against the Registrant or its consolidated subsidiaries consist of ordinary, routine litigation, including administrative proceedings, incident to the businesses of the Registrant, as well as litigation incident to the sale and disposition of businesses that have occurred in the past several years. Management does not believe that the outcome of such proceedings will have a material effect on the Registrant's consolidated financial position, liquidity, or results of operations.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

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

(b) Reports on Form 8-K

The Registrant filed no reports on Form 8-K during the quarter ended May 3, 2003.

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.

FOOT LOCKER, INC.
(Registrant)

Date: June 16, 2003

/s/ Bruce L. Hartman

BRUCE L. HARTMAN
Executive Vice President
and Chief Financial Officer

CERTIFICATIONS

I, Matthew D. Serra, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Foot Locker, Inc. (the "Registrant");

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this quarterly report.

4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and we have:

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

   b) evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The Registrant's other certifying officers and I have disclosed, based

on our most recent evaluation, to the Registrant's auditors and the Audit Committee of Registrant's Board of Directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and

6. The Registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

June 16, 2003

/s/ Matthew D. Serra

Principal Executive Officer

CERTIFICATIONS

I, Bruce L. Hartman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Foot Locker, Inc. (the "Registrant");

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and we have:

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

b) evaluated the effectiveness of the Registrant's disclosure

controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the Audit Committee of Registrant's Board of Directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and

6. The Registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses;

June 16, 2003

/s/ Bruce L. Hartman

Principal 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. in Item 601 of Regulation S-K	Description
12	Computation of Ratio of Earnings to Fixed Charges.
15	Letter re: Unaudited Interim Financial Statements.
99.1	Independent Accountants' Review Report.
99.2	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.3	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906

of the Sarbanes-Oxley Act of 2002.