

FOOT LOCKER INC
Form 10-K
March 30, 2009

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended January 31, 2009

OR

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

For the transition period from _____ to _____

Commission File No.1-10299

FOOT LOCKER, INC.

(Exact name of Registrant as specified in its charter)

New York

(State or other jurisdiction of
incorporation or organization)

112 West 34th Street, New York, New York
(Address of principal executive offices)

13-3513936

(I.R.S. Employer Identification No.)

10120
(Zip Code)

Registrant's telephone number, including area code: (212) 720-3700

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Common Stock, par value \$0.01

Name of each exchange on which registered
New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (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 c

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

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 x Accelerated filer c Non-accelerated filer c Smaller reporting company c

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

Number of shares of Common Stock outstanding at March 24, 2009: 154,947,095
 The aggregate market value of voting stock held by non-affiliates of the Registrant computed by reference to the closing price as of the last business day of the Registrant's most recently completed second fiscal quarter, August 2, 2008, was approximately: \$ 1,738,151,003*

* For purposes of this calculation only (a) all directors plus one executive officer and owners of five percent or more of the Registrant are deemed to be affiliates of the Registrant and (b) shares deemed to be "held" by such persons at August 2, 2008 include only outstanding shares of the Registrant's voting stock with respect to which such persons had, on such date, voting or investment power.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement (the "Proxy Statement") to be filed in connection with the Annual Meeting of Shareholders to be held on May 20, 2009: Parts III and IV.

TABLE OF CONTENTS

PART I

Item 1	Business	1
Item 1A	Risk Factors	2
Item 1B	Unresolved Staff Comments	6
Item 2	Properties	6
Item 3	Legal Proceedings	7
Item 4	Submission of Matters to a Vote of Security Holders	7

PART II

Item 5	Market for the Company's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	8
Item 6	Selected Financial Data	8
Item 7	Management's Discussion and Analysis of Financial Condition and Results of Operations	8
Item 7A	Quantitative and Qualitative Disclosures About Market Risk	26
Item 8	Consolidated Financial Statements and Supplementary Data	26
Item 9	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	66
Item 9A	Controls and Procedures	66
Item 9B	Other Information	69

PART III

Item 10	Directors, Executive Officers and Corporate Governance	69
Item 11	Executive Compensation	69
Item 12	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	69
Item 13	Certain Relationships and Related Transactions, and Director Independence	69
Item 14	Principal Accountant Fees and Services	69

PART IV

Item 15	Exhibits and Financial Statement Schedules	70
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PART I**Item 1. Business****General**

Foot Locker, Inc., incorporated under the laws of the State of New York in 1989, is a leading global retailer of athletic footwear and apparel, operating 3,641 primarily mall-based stores in the United States, Canada, Europe, Australia, and New Zealand as of January 31, 2009. Foot Locker, Inc. and its subsidiaries hereafter are referred to as the "Registrant," "Company" or "we." Information regarding the business is contained under the "Business Overview" section in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

The Company maintains a website on the Internet at www.footlocker-inc.com. The Company's filings with the Securities and Exchange Commission, including its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports are available free of charge through this website as soon as reasonably practicable after they are filed with or furnished to the SEC by clicking on the "SEC Filings" link. The Corporate Governance section of the Company's corporate website contains the Company's Corporate Governance Guidelines, Committee Charters, and the Company's Code of Business Conduct for directors, officers and employees, including the Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer. Copies of these documents may also be obtained free of charge upon written request to the Company's Corporate Secretary at 112 West 34th Street, New York, NY 10120. The Company intends to disclose promptly amendments to the Code of Business Conduct and waivers of the Code for directors and executive officers on the Corporate Governance section of the Company's corporate website.

The Certification of the Chief Executive Officer required by Section 303A.12(a) of The New York Stock Exchange Listing Standards relating to the Company's compliance with The New York Stock Exchange Corporate Governance Listing Standards was submitted to The New York Stock Exchange on June 6, 2008.

Information Regarding Business Segments and Geographic Areas

The financial information concerning business segments, divisions and geographic areas is contained under the "Business Overview" and "Segment Information" sections in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations." Information regarding sales, operating results and identifiable assets of the Company by business segment and by geographic area is contained under the "Segment Information" note in "Item 8. Consolidated Financial Statements and Supplementary Data."

The service marks and trademarks appearing on this page and elsewhere in this report (except for dELiA*s, Alshaya Trading Co. W.L.L., Northern Group, ESPN, Nike, The San Francisco Music Box Company, and U.S. Olympic Committee) are owned by Foot Locker, Inc. or its subsidiaries.

Employees

The Company and its consolidated subsidiaries had 15,952 full-time and 23,806 part-time employees at January 31, 2009. The Company considers employee relations to be satisfactory.

Competition

Financial information concerning competition is contained under the "Business Risk" section in the "Financial Instruments and Risk Management" note in "Item 8. Consolidated Financial Statements and Supplementary Data."

Merchandise Purchases

Financial information concerning merchandise purchases is contained under the "Liquidity" section in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and under the "Business Risk" section in the "Financial Instruments and Risk Management" note in "Item 8. Consolidated Financial Statements and Supplementary Data."

1

Item 1A. Risk Factors

The statements contained in this Annual Report on Form 10-K ("Annual Report") that are not historical facts, including, but not limited to, statements regarding our expected financial position, business and financing plans found in "Item 1. Business" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Please also see "Disclosure Regarding Forward-Looking Statements." Our actual results may differ materially due to the risks and uncertainties discussed in this Annual Report, including those discussed below. Additional risks and uncertainties that we do not presently know about or that we currently consider to be insignificant may also affect our business operations and financial performance.

We reported a material weakness in our internal control over financial reporting, and if we are unable to improve our internal controls, our financial results may not be accurately reported.

Management's assessment of the effectiveness of our internal control over financial reporting as of January 31, 2009 identified a material weakness in its internal control over financial reporting designed to ensure proper accounting for income taxes, as described in "Item 9A. Controls and Procedures." This material weakness, or difficulties encountered in implementing new or improved controls or remediation, could prevent us from accurately reporting our financial results, result in material misstatements in our financial statements or cause us to fail to meet our reporting obligations. Failure to comply with Section 404 of the Sarbanes-Oxley Act of 2002 could negatively affect our business, the price of our common stock and market confidence in our reported financial information.

The industry in which we operate is dependent upon fashion trends, customer preferences and other fashion-related factors.

The athletic footwear and apparel industry is subject to changing fashion trends and customer preferences. We cannot guarantee that our merchandise selection will accurately reflect customer preferences when it is offered for sale or that we will be able to identify and respond quickly to fashion changes, particularly given the long lead times for ordering much of our merchandise from vendors. For example, we order the bulk of our athletic footwear four to six months prior to delivery to our stores. If we fail to anticipate accurately either the market for the merchandise in our stores or our customers' purchasing habits, we may be forced to rely on markdowns or promotional sales to dispose of excess, slow moving inventory, which could have a material adverse effect on our business, financial condition, and results of operations.

A substantial portion of our highest margin sales are to young males (ages 12-25), many of whom we believe purchase athletic footwear and licensed apparel as a fashion statement and are frequent purchasers of athletic footwear. Any shift in fashion trends that would make athletic footwear or licensed apparel less attractive to these customers could have a material adverse effect on our business, financial condition, and results of operations.

The businesses in which we operate are highly competitive.

The retail athletic footwear and apparel business is highly competitive with relatively low barriers to entry. Our athletic footwear and apparel operations compete primarily with athletic footwear specialty stores, sporting goods stores and superstores, department stores, discount stores, traditional shoe stores, and mass merchandisers, many of which are units of national or regional chains that have significant financial and marketing resources. The principal competitive factors in our markets are price, quality, selection of merchandise, reputation, store location, advertising, and customer service. We cannot assure you that we will continue to be able to compete successfully against existing or future competitors. Our expansion into markets served by our competitors and entry of new competitors or expansion of existing competitors into our markets could have a material adverse effect on our business, financial condition, and results of operations.

Although we sell merchandise via the Internet, a significant shift in customer buying patterns to purchasing athletic footwear, athletic apparel, and sporting goods via the Internet could have a material adverse effect on our business results. In addition, some of our vendors distribute products directly through the Internet and others may follow. Some vendors operate retail stores and some have indicated that further retail stores will open. Should this continue to occur, and if our customers decide to purchase directly from our vendors, it could have a material adverse effect on our business, financial condition, and results of operations.

2

We depend on mall traffic and our ability to identify suitable store locations.

Our sales, particularly in the United States and Canada, are dependent in part on a high volume of mall traffic. Our stores are located primarily in enclosed regional and neighborhood malls. Mall traffic may be adversely affected by, among other things, economic downturns, the closing of anchor department stores or changes in customer preferences or acts of terrorism. A decline in the popularity of mall shopping among our target customers could have a material adverse effect on us.

To take advantage of customer traffic and the shopping preferences of our customers, we need to maintain or acquire stores in desirable locations such as in regional and neighborhood malls anchored by major department stores. We cannot be certain that desirable mall locations will continue to be available.

The effects of natural disasters, terrorism, acts of war and retail industry conditions may adversely affect our business.

Natural disasters, including hurricanes, floods, and tornados may affect store and distribution center operations. In addition, acts of terrorism, acts of war, and military action both in the United States and abroad can have a significant effect on economic conditions and may negatively affect our ability to purchase merchandise from vendors for sale to our customers. Any significant declines in general economic conditions, public safety concerns or uncertainties regarding future economic prospects that affect customer spending habits could have a material adverse effect on customer purchases of our products.

A change in the relationship with any of our key vendors or the unavailability of our key products at competitive prices could affect our financial health.

Our business is dependent to a significant degree upon our ability to purchase brand-name merchandise at competitive prices, including the receipt of volume discounts, cooperative advertising, and markdown allowances from our vendors. The Company purchased approximately 80 percent of its merchandise in 2008 from its top five vendors and expects to continue to obtain a significant percentage of its athletic product from these vendors in future periods. Approximately 64 percent was purchased from one vendor □ Nike, Inc. (□Nike□). Each of our operating divisions is highly dependent on Nike; they individually purchase 44 to 78 percent of their merchandise from Nike. Our inability to obtain merchandise in a timely manner from major suppliers (particularly Nike) as a result of business decisions by our suppliers or any disruption in the supply chain could have a material adverse effect on our business, financial condition, and results of operations. Because of our strong dependence on Nike, any adverse development in Nike's financial condition and results of operations or the inability of Nike to develop and manufacture products that appeal to our target customers could also have an adverse effect on our business, financial condition, and results of operations. We cannot be certain that we will be able to acquire merchandise at

competitive prices or on competitive terms in the future.

Merchandise that is high profile and in high demand is allocated by our vendors based upon their internal criteria. Although we have generally been able to purchase sufficient quantities of this merchandise in the past, we cannot be certain that our vendors will continue to allocate sufficient amounts of such merchandise to us in the future. In addition, our vendors provide support to us through cooperative advertising allowances and promotional events. We cannot be certain that such assistance from our vendors will continue in the future. These risks could have a material adverse effect on our business, financial condition, and results of operations.

We may experience fluctuations in and cyclicity of our comparable-store sales results.

Our comparable-store sales have fluctuated significantly in the past, on both an annual and a quarterly basis, and we expect them to continue to fluctuate in the future. A variety of factors affect our comparable-store sales results, including, among others, fashion trends, the highly competitive retail store sales environment, economic conditions, timing of promotional events, changes in our merchandise mix, calendar shifts of holiday periods, and weather conditions.

Many of our products, particularly high-end athletic footwear and licensed apparel, represent discretionary purchases. Accordingly, customer demand for these products could decline in a recession or if our customers develop other priorities for their discretionary spending. These risks could have a material adverse effect on our business, financial condition, and results of operations.

3

Our operations may be adversely affected by economic or political conditions in other countries.

Approximately 28 percent of our sales and a significant portion of our operating results for 2008 were attributable to our sales in Europe, Canada, New Zealand, and Australia. As a result, our business is subject to the risks associated with doing business outside of the United States, such as foreign governmental regulations, foreign customer preferences, political unrest, disruptions or delays in shipments, and changes in economic conditions in countries in which we operate. Although we enter into forward foreign exchange contracts and option contracts to reduce the effect of foreign currency exchange rate fluctuations, our operations may be adversely affected by significant changes in the value of the U.S. dollar as it relates to certain foreign currencies.

In addition, because we and our suppliers have a substantial amount of our products manufactured in foreign countries, our ability to obtain sufficient quantities of merchandise on favorable terms may be affected by governmental regulations, trade restrictions, and economic, labor, and other conditions in the countries from which our suppliers obtain their product.

Our business is subject to economic cycles and retail industry conditions. Purchases of discretionary athletic footwear, apparel, and related products, tend to decline during recessionary periods when disposable income is low and customers are hesitant to use available credit.

The effect of deteriorating global economic conditions and financial markets may adversely affect our business.

The Company's performance is subject to global economic conditions and the related impact on consumer spending levels, which have declined recently due to the current economic slowdown. Some of the factors affecting consumer spending are employment, levels of consumer debt, reductions in net worth as a result of recent severe market declines, residential real estate and mortgage markets, taxation, fuel and energy prices, interest rates, consumer confidence, as well as other macroeconomic factors. Consumer purchases of discretionary items, including merchandise we sell, generally decline during recessionary periods and other periods where disposable income is adversely affected. The downturn in the global economy may continue to affect customer purchases for the foreseeable future and may adversely impact our business, financial condition and results of operations. In addition, declines in our profitability could result in a charge to earnings for the impairment of goodwill, which would not affect our cash flow but could decrease our earnings, and our stock price could be adversely affected.

The recent distress in the financial markets has resulted in extreme volatility in security prices and diminished liquidity and credit availability. There can be no assurance that our liquidity will not be affected by changes in the financial markets and the global economy. Although we currently do not have any borrowings under our revolving credit facility (other than amounts used for standby letters of credits), tightening of the credit markets could make it more difficult for us to access funds, refinance our existing indebtedness, enter into agreements for new indebtedness or obtain funding through the issuance of the Company's securities. In addition, the current credit situation is having a significant negative impact on businesses around the world, and the impact of this situation on our major suppliers cannot be predicted. The Company relies on a few key vendors for a majority of its merchandise purchases (including a significant portion from one key vendor). The inability of key suppliers to access liquidity, or the insolvency of key suppliers, could lead to their failure to deliver our merchandise. Our inability to obtain merchandise in a timely manner from major suppliers could have a material adverse effect on our business, financial condition, and results of operations.

If our long-lived assets, goodwill or other intangible assets become impaired, we may need to record significant non-cash impairment charges.

We review our long-lived assets, goodwill and other intangible assets when events indicate that the carrying value of such assets may be impaired. Goodwill and other indefinite lived intangible assets are reviewed for impairment if impairment indicators arise and, at a minimum, annually. We determine fair value based on a combination of a discounted cash flow approach and market-based approach. If an impairment trigger is identified, the carrying value is compared to its estimated fair value and provisions for impairment are recorded as appropriate. Impairment losses are significantly affected by estimates of future operating cash flows and estimates of fair value. Our estimates of future operating cash flows are identified from our three-year plans, which are based upon our experience, knowledge and expectations; however, these estimates can be affected by such factors as our future operating results, future store profitability, and future economic conditions, all of which can be difficult to predict.

4

Similar to others in our industry, the recent macroeconomic conditions have affected both our performance, as well as our stock price and market capitalization, and it is difficult to predict how long these economic conditions will continue, whether they will continue to deteriorate, and which aspects of our business may be adversely affected. These conditions and the continuation of these conditions could affect the fair value of our long-lived assets, goodwill and other intangible assets and could result in future impairment charges, which would adversely affect our results of operations.

Material changes in the market value of the securities we hold may adversely affect our results of operations and financial condition.

As of January 31, 2009, our cash, cash equivalents and short-term investments totaled \$408 million, of which \$380 million was invested in a diversified portfolio of short-term securities. Substantially all of our investments were short-term deposits in highly rated banking institutions. We regularly monitor our counterparty credit risk and mitigate our exposure by making short-term investments only in highly-rated institutions and by limiting the amount we invest in any one institution. At January 31, 2009, most of the investments were in institutions rated "AA-" or better from a major credit rating agency. Despite those ratings, it is possible that the value or liquidity of our investments may decline due to any number of factors, including general market conditions and bank-specific credit issues. We have significant amounts of cash and cash equivalents at financial institutions that are in excess of federally insured limits. With the current uncertain financial environment and the instability of financial institutions, we cannot be assured that we will not experience losses on our deposits.

The master trust which holds the assets of our U.S. pension plan has assets totaling approximately \$346 million as of January 31, 2009. The fair values of these assets held in the master trust are compared to the plan's projected benefit obligation to determine the pension funding liability. We attempt to mitigate risk through diversification, and we regularly monitor investment risk on our portfolio through quarterly investment portfolio reviews and periodic asset and liability studies. Despite these measures, it is possible that the value of our portfolio may decline in the future due to any number of factors, including general market conditions and credit issues. Such declines could have an impact on the funded status of our pension plans and future funding requirements. In addition, the decline in our pension assets will adversely affect pension expense in 2009.

Complications in our distribution centers and other factors affecting the distribution of merchandise may affect our business.

We operate four distribution centers worldwide to support our athletic business. In addition to the distribution centers that we operate, we have third-party arrangements to support our operations in Canada, Australia and New Zealand. If complications arise with any facility or any facility is severely damaged or destroyed, the Company's other distribution centers may not be able to support the resulting additional distribution demands. This may adversely affect our ability to deliver inventory on a timely basis. We depend upon UPS for shipment of a significant amount of merchandise. An interruption in service by UPS for any reason could cause temporary disruptions in our business, a loss of sales and profits, and other material adverse effects.

Our freight cost is affected by changes in fuel prices through surcharges. Increases in fuel prices and surcharges and other factors may increase freight costs and thereby increase our cost of sales.

A major failure of our information systems could harm our business.

We depend on information systems to process transactions, manage inventory, operate our websites, purchase, sell and ship goods on a timely basis, and maintain cost-efficient operations. Any material disruption or slowdown of our systems could cause information to be lost or delayed, which could have a negative effect on our business. We may experience operational problems with our information systems as a result of system failures, viruses, computer "hackers" or other causes. We cannot be assured that our systems will be adequate to support future growth.

Risks associated with Internet operations.

Our Internet operations are subject to numerous risks, including risks related to the failure of the computer systems that operate our websites and their related support systems, including computer viruses, telecommunications failures and similar disruptions. Also, we may require additional capital in the future to sustain or grow our online commerce.

5

Business risks related to online commerce include risks associated with the need to keep pace with rapid technological change, Internet security risks, risks of system failure or inadequacy, government regulation and legal uncertainties with respect to the Internet, and collection of sales or other taxes by one or more states or foreign jurisdictions. If any of these risks materializes, it could have a material adverse effect on the Company's business.

Risk associated with our recent acquisition.

During the fourth quarter of 2008, we acquired CCS, a leading direct-to-customer retailer that sells skateboard equipment, apparel, footwear and accessories through catalogs and the Internet. We have substantially completed the integration of CCS during the fourth quarter 2008, including moving all personnel and distribution activities to our corporate office and distribution center, respectively. The acquisition of CCS involves a number of risks, which could significantly and adversely affect our business, financial condition, and results of operations, including:

- failure of CCS to achieve the results that we expect;
- diversion of management's attention from operational matters;
- difficulties integrating the operations and personnel; and
- potential difficulties associated with the retention of key personnel.

Unauthorized disclosure of sensitive or confidential customer information, whether through a breach of the Company's computer system or otherwise, could severely harm our business.

As part of the Company's normal course of business, it collects, processes, and retains sensitive and confidential customer information. Despite the security measures the Company has in place, its facilities and systems may be vulnerable to security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming and/or human error, or other similar events. Any security breach involving the misappropriation, loss or other unauthorized disclosure of confidential information by the Company could severely damage its reputation, expose it to the risks of litigation and liability, disrupt its operations and harm its business.

Our reliance on key management, store and field associates.

Future performance will depend upon our ability to attract, retain, and motivate our executive and senior management team, as well as, store personnel and field management. Our success depends to a significant extent both upon the continued services of our current executive and senior management team, as well as our ability to attract, hire, motivate, and retain additional qualified management in the future. Competition for key executives in the retail industry is intense, and our operations could be adversely affected if we cannot attract and retain qualified associates. Many of the store and field associates are in entry level or part-time positions with historically high rates of turnover. Our ability to meet our labor needs while controlling costs is subject to external factors such as unemployment levels, prevailing wage rates, minimum wage legislation, and changing demographics. If we are unable to attract and retain quality associates, our ability to meet our growth goals or to sustain expected levels of profitability may be compromised. In addition, a large number of our retail employees are paid the prevailing minimum wage, which if increased would negatively affect our profitability.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The properties of the Company and its consolidated subsidiaries consist of land, leased and owned stores, and administrative and distribution facilities. Gross square footage and total selling area for the Athletic Stores segment at the end of 2008 were approximately 13.50 and 8.09 million square feet, respectively. These properties, which are primarily leased, are located in the United States, Canada, various European countries, Australia, and New Zealand.

The Company currently operates four distribution centers, of which two are owned and two are leased, occupying an aggregate of 2.55 million square feet. Three of the four distribution centers are located in the United States and one is in Europe.

Item 3. Legal Proceedings

Information regarding the Company's legal proceedings are contained in the "Legal Proceedings" note under "Item 8. Consolidated Financial Statements and Supplementary Data."

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the fourth quarter of the year ended January 31, 2009.

Executive Officers of the Company

Information with respect to Executive Officers of the Company, as of March 30, 2009, is set forth below:

Chairman of the Board, President and Chief Executive Officer	Matthew D. Serra
President and Chief Executive Officer - Foot Locker, Inc. - International	Ronald J. Halls
Senior Vice President, General Counsel and Secretary	Gary M. Bahler

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Senior Vice President □ Real Estate	Jeffrey L. Berk
Senior Vice President, Chief Information Officer and Investor Relations	Peter D. Brown
Senior Vice President and Chief Financial Officer	Robert W. McHugh
Senior Vice President □ Strategic Planning	Lauren B. Peters
Senior Vice President □ Human Resources	Laurie J. Petrucci
Vice President and Chief Accounting Officer	Giovanna Cipriano
Vice President and Treasurer	John A. Maurer

Matthew D. Serra, age 64, has served as Chairman of the Board since February 2004, President since April 2000 and Chief Executive Officer since March 2001. Mr. Serra served as Chief Operating Officer from February 2000 to March 2001 and as President and Chief Executive Officer of Foot Locker Worldwide from September 1998 to February 2000.

Ronald J. Halls, age 55, has served as President and Chief Executive Officer of Foot Locker, Inc. □ International since October 2006. He served as President and Chief Executive Officer of Champs Sports, an operating division of the Company, from February 2003 to October 2006 and as Chief Operating Officer of Champs Sports from February 2000 to February 2003.

Gary M. Bahler, age 57, has served as Senior Vice President since August 1998, General Counsel since February 1993 and Secretary since February 1990.

Jeffrey L. Berk, age 53, has served as Senior Vice President □ Real Estate since February 2000.

Peter D. Brown, age 54, has served as Senior Vice President, Chief Information Officer and Investor Relations since September 2006. Mr. Brown served as Vice President □ Investor Relations and Treasurer from October 2001 to September 2006, served as Vice President □ Investor Relations and Corporate Development from April 2001 to October 2001 and as Assistant Treasurer □ Investor Relations and Corporate Development from August 2000 to April 2001.

Robert W. McHugh, age 50, has served as Senior Vice President and Chief Financial Officer since November 2005. He served as Vice President and Chief Accounting Officer from January 2000 to November 2005.

Lauren B. Peters, age 47, has served as Senior Vice President □ Strategic Planning since April 2002. Ms. Peters served as Vice President □ Planning from January 2000 to April 2002.

Laurie J. Petrucci, age 50, has served as Senior Vice President □ Human Resources since May 2001. Ms. Petrucci served as Senior Vice President □ Human Resources of the Foot Locker Worldwide division from March 2000 to May 2001.

Giovanna Cipriano, age 39, has served as Vice President and Chief Accounting Officer since November 2005. She served as Divisional Vice President, Financial Controller from June 2002 to November 2005.

John Maurer, age 49, has served as Vice President and Treasurer since September 2006. Mr. Maurer served as Assistant Treasurer from April 2002 to September 2006.

There are no family relationships among the executive officers or directors of the Company.

PART II

Item 5. Market for the Company's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Information regarding the Company's market for stock exchange listings, common equity, quarterly high and low prices, and dividend policy are contained in the "Shareholder Information and Market Prices" note under "Item 8. Consolidated Financial Statements and Supplementary Data."

Performance Graph

The following graph compares the cumulative five-year total return to shareholders on Foot Locker, Inc.'s common stock relative to the total returns of the S&P 400 Retailing Index and the Russell 2000 Index.

Indexed Share Price Performance

Item 6. Selected Financial Data

Selected financial data is included in the "Five Year Summary of Selected Financial Data" note in "Item 8. Consolidated Financial Statements and Supplementary Data."

Item 7. 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, and Footaction. The Direct-to-Customers segment reflects CCS and Footlocker.com, Inc., which sells, through its affiliates, including Eastbay, Inc., to customers through catalogs and Internet websites.

The Foot Locker brand is one of the most widely recognized names in the market segments in which the Company operates, epitomizing high quality for the active lifestyle customer. This brand equity has aided the Company's ability to successfully develop and increase its portfolio of complementary retail store formats, specifically Lady Foot Locker and Kids Foot Locker, as well as Footlocker.com, Inc., its direct-to-customers business. Through various marketing channels, including television campaigns and sponsorships of various sporting events, Foot Locker, Inc. reinforces its image with a consistent message; namely, that it is the destination store for athletic footwear and apparel with a wide selection of merchandise in a full-service environment.

8

Athletic Stores

The Company operates 3,641 stores in the Athletic Stores segment. The following is a brief description of the Athletic Stores segment's operating businesses:

Foot Locker — Foot Locker is a leading athletic footwear and apparel retailer. Its stores offer the latest in athletic-inspired performance products, manufactured primarily by the leading athletic brands. Foot Locker offers products for a wide variety of activities including basketball, running, and training. Its 1,950 stores are located in 21 countries including 1,218 in the United States, Puerto Rico, U.S. Virgin Islands, and Guam, 130 in Canada, 512 in Europe and a combined 90 in Australia and New Zealand. The domestic stores have an average of 2,400 selling square feet and the international stores have an average of 1,400 selling square feet.

Champs Sports — Champs Sports is one of the largest mall-based specialty athletic footwear and apparel retailers in the United States. Its product categories include athletic footwear, apparel and accessories, and a focused assortment of equipment. This combination allows Champs Sports to differentiate itself from other mall-based stores by presenting complete product assortments in a select number of sporting activities. Its 565 stores are located throughout the United States, Canada, Puerto Rico, and the U.S. Virgin Islands. The Champs Sports stores have an average of 3,600 selling square feet.

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Footaction □ Footaction is a national athletic footwear and apparel retailer. The primary customers are young urban males that seek street-inspired fashion styles. Its 335 stores are located throughout the United States and Puerto Rico and focus on marquee allocated footwear and branded apparel. The Footaction stores have an average of 2,900 selling square feet.

Lady Foot Locker □ Lady Foot Locker is a leading U.S. retailer of athletic footwear, apparel and accessories for women. Its stores carry major athletic footwear and apparel brands, as well as casual wear and an assortment of proprietary merchandise designed for a variety of activities, including running, basketball, walking, and fitness. Its 486 stores are located in the United States, Puerto Rico, the U.S. Virgin Islands, and Guam, and have an average of 1,300 selling square feet.

Kids Foot Locker □ Kids Foot Locker is a national children's athletic retailer that offers the largest selection of brand-name athletic footwear, apparel and accessories for children. Its stores feature an environment geared to appeal to both parents and children. Its 305 stores are located in the United States, Puerto Rico and the U.S. Virgin Islands and have an average of 1,400 selling square feet.

Store Profile

	At February 2, 2008	Opened	Closed	At January 31, 2009
Foot Locker	2,006	29	85	1,950
Champs Sports	576	17	28	565
Footaction	356	1	22	335
Lady Foot Locker	526	5	45	486
Kids Foot Locker	321	12	28	305
Total Athletic Stores	3,785	64	208	3,641

Direct-to-Customers

Footlocker.com □ Footlocker.com, Inc., sells, through its affiliates, directly to customers through catalogs and its Internet websites. Eastbay, Inc., one of its affiliates, is one of the largest direct marketers of athletic footwear, apparel, equipment, team licensed and private-label merchandise in the United States and provides the Company's eight full-service e-commerce sites access to an integrated fulfillment and distribution system. The Company has a marketing agreement with the U.S. Olympic Committee (USOC) providing the Company with the exclusive rights to sell USOC licensed products through catalogs and via an e-commerce site.

9

The Company has an agreement with ESPN for ESPN Shop □ an ESPN-branded direct mail catalog and e-commerce site linked to www.ESPNshop.com, where consumers can purchase athletic footwear, apparel and equipment, which will be managed by Footlocker.com. Both the catalog and the e-commerce site feature a variety of ESPN-branded and non-ESPN-branded athletically inspired merchandise.

On November 5, 2008, the Company purchased CCS from dELiA*s, Inc. CCS is a direct marketer of skateboard and snowboard equipment, apparel, footwear, and accessories primarily targeting teenage boys. CCS operates through catalogs and its Internet website.

Franchise Operations

In March of 2006, the Company entered into a ten-year area development agreement with the Alshaya Trading Co. W.L.L., in which the Company agreed to enter into separate license agreements for the operation of Foot Locker stores, subject to certain restrictions, located within the Middle East. Additionally, in March 2007, the Company entered into a ten-year agreement with another third party for the exclusive right to open and operate Foot Locker stores in the Republic of Korea. A total of 17 franchised stores were operational at January 31, 2009. Revenue from the franchised stores was not significant for the any of the periods presented. These stores are not

included in the Company's operating store count above.

2007 Results

The 2007 results as presented in this Annual Report have been corrected to reflect an immaterial revision to its fourth quarter and full year 2007 results in accordance with Staff Accounting Bulletin 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." The income tax benefit of \$99 million related to continuing operations, as reported for the full year of 2007 within the Form 10-K, was overstated by \$6 million. This overstatement comprises primarily five items. First, the Company understated its income taxes payable by \$9 million due to incorrectly accounting for foreign dividend withholding taxes. Second, the Company noted that certain foreign currency fluctuations related to the tax assets and liabilities, totaling \$5 million, should have been reflected as part of the foreign currency translation adjustment within accumulated other comprehensive loss. The Company had incorrectly reflected these foreign exchange movements within the income tax provision, thereby increasing the income tax provision erroneously. Third, the Company overstated the value of a portion of its Canadian deferred tax assets by \$3 million as a result of using incorrect tax rates. Fourth, the Company understated a deferred tax liability of \$2 million related to goodwill. Finally, various state and international depreciation corrections totaling \$3 million were overstated in the income tax provision.

Overview of Consolidated Results

2008 was a very challenging year for the overall retail industry. The severe recession, which began in the latter part of 2007 in the United States, worsened and spread to other countries throughout the year. This past year has been defined by historically low consumer confidence, rising unemployment levels, and declining consumer spending. We had anticipated that consumer spending would continue to slow during 2008 and we therefore planned our business strategy, accordingly. In 2007, we initiated a program to close underperforming stores to improve the overall profitability of our store fleet. Another significant area of focus was inventory management. We began the year with inventory levels in line with anticipated sales. This improved inventory position allowed us to reduce promotional markdowns and improve our gross margin rate in 2008.

The Company reported a net loss from continuing operations of \$79 million or \$0.52 per share for the year ended January 31, 2009, which compares with \$43 million or \$0.28 per share for the year ended February 2, 2008. Several factors affect the comparability of these two years, specifically:

- The overall decline in current business trends, as well as lower projected earnings, resulted in our recognizing non-cash charges for goodwill and other intangible assets impairments in 2008 totaling \$169 million, or \$123 million after-tax.
- In addition to the above impairment charges, during 2008 the following charges were recorded:
- \$15 million impairment charge, with no tax benefit, related to the write-off of a note due from the purchasers of the Northern Group, a previously discontinued business,

- \$3 million charge, with no tax benefit, related to an other-than-temporary impairment of our investment in a money-market fund,
- Impairment of store long-lived assets related to the U.S. retail divisions totaling \$67 million or \$41 million, after-tax, and
- Exit costs related to the store closing program, primarily representing lease termination costs, totaling \$5 million, or \$3 million after-tax.
- Included in the results for 2007 are impairment charges and store closing expenses totaling \$128 million, or \$81 million after-tax. In addition, the 2007 results include a \$62 million benefit related to a Canadian

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income tax valuation adjustment.

- Excluding the impairment charges, store closing costs, and the income tax valuation adjustments for both 2008 and 2007, net income from continuing operations would have been \$106 million in 2008 as compared with \$62 million in 2007. This primarily reflects a \$40 million improvement in gross margin as the Company was significantly less promotional during 2008.

The following table provides a reconciliation of reported GAAP results to income from continuing operations excluding impairment charges, store closing program costs, and the income tax valuation adjustment in 2007, which is considered a non-GAAP financial measure. The Company believes this information is a useful measure to investors because it allows for a more direct comparison of the Company's performance for the year with the Company's performance in prior periods.

	2008	2007 (in millions)	2006
(Loss) income from continuing operations - GAAP	\$ (79)	\$ 43	\$ 247
Impairment Charges, after-tax:			
Goodwill and other intangibles	123	□	□
Northern Group note	15	□	□
Money-market fund	3	□	□
Store long-lived assets	41	78	12
Total impairment charges	182	78	12
Store closing program costs, after-tax	3	3	□
Canadian valuation allowance adjustment	□	(62)	□
Income from continuing operations - Non-GAAP	\$ 106	\$ 62	\$ 259
Diluted Earnings per Share:			
(Loss) income from continuing operations - GAAP	\$ (0.52)	\$ 0.28	\$ 1.58
Total impairment charges	1.18	0.50	0.08
Store closing program costs	0.02	0.02	□
Canadian valuation allowance adjustment	□	(0.40)	□
Income from continuing operations - Non-GAAP	\$ 0.68	\$ 0.40	\$ 1.66

Key highlights of the year:

- Acquired CCS, a leading direct marketer of skateboard equipment, apparel, footwear and accessories for \$106 million. This acquisition provides us with an opportunity to expand our product offerings while complementing our current offerings.
- Cash, cash equivalents and short-term investments as of January 31, 2009 were \$408 million. Cash flow provided by operations was \$383 million, an improvement of \$100 million as compared with the prior year.

- Merchandise inventories at January 31, 2009 were \$1,120 million, which represents a reduction of \$161 million. Excluding the effect of foreign currency fluctuations and the additional inventory associated with our recent acquisition, inventories declined by approximately 10 percent.
- Repaid the remaining \$88 million of our outstanding balance on the 5-year term loan.

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- Purchased and retired \$6 million of the \$200 million 8.50 percent debentures payable in 2022, bringing the outstanding amount to \$123 million as of January 31, 2009.
- Dividends totaling \$93 million were declared and paid.

Looking ahead to 2009, we are focused on ensuring our balance sheet and cash position remain strong; continuing to manage our cost structure and inventory levels aggressively; strengthening and enhancing our brands to ensure they are relevant; and positioning our Company for long-term success.

The following table represents a summary of sales and operating results, reconciled to (loss) income from continuing operations before income taxes.

	2008	2007	2006
	(in millions)		
Sales			
Athletic Stores	\$ 4,847	\$ 5,071	\$ 5,370
Direct-to-Customers	390	364	380
Family Footwear	□	2	□
	\$ 5,237	\$ 5,437	\$ 5,750
Operating Results			
Athletic Stores ⁽¹⁾	\$ (59)	\$ (27)	\$ 405
Direct-to-Customers	43	40	45
Family Footwear ⁽²⁾	□	(6)	□
Division (loss) profit	(16)	7	450
Restructuring income (charge) ⁽³⁾	□	2	(1)
Total division (loss) profit	(16)	9	449
Corporate expense	(87)	(59)	(68)
Total operating (loss) profit	(103)	(50)	381
Other income	8		