FOOT LOCKER INC
Form 10-Q
September 10, 2008

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

FORM 10 - Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 19

For the quarterly period ended August 2, 2008

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1
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	**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)**

Registrants telephone number: (212) 720-3700

(Former name, former address and former fiscal year, if changed since last report.)

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 o

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	o
Non-accelerated filer	o	Smaller reporting company	o
(Do not check if a smaller reporting company)			

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

Number of shares of Common Stock outstanding at September 5, 2008: 154,975,767

FOOT LOCKER, INC.

TABLE OF CONTENTS

			Page
Part I.	Financial Information		
	Item 1.	Financial Statements	
		Condensed Consolidated Balance Sheets	3
		Condensed Consolidated Statements of Operations	4
		Condensed Consolidated Statements of Comprehensive Income (Loss)	5
		Condensed Consolidated Statements of Cash Flows	6
		Notes to Condensed Consolidated Financial Statements	7
	Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	15
	Item 4.	Controls and Procedures	19
Part II.	Other Information		
	Item 1.	Legal Proceedings	19
	Item 1A.	Risk Factors	19
	Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	19
	Item 4.	Submission of Matters to a Vote of Security Holders	19
	Item 6.	Exhibits	20
		Signature	21
		Index to Exhibits	22

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

FOOT LOCKER, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions, except shares)

	August 2, 2008 (Unaudited)	August 4, 2007 (Unaudited)
ASSETS		
Current assets		
Cash and cash equivalents	$ 431	$ 204
Short-term investments	—	159

Merchandise inventories	1,401	1,452
Other current assets	250	290
	2,082	2,105
Property and equipment, net	529	648
Deferred taxes	247	134
Goodwill	267	265
Intangible and other assets	146	188
	$ 3,271	$ 3,340
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 363	$ 368
Accrued expenses and other current liabilities	266	254
Current portion of long-term debt and obligations under capital leases		14
	629	636
Long-term debt and obligations under capital leases	125	216
Other liabilities	257	245
	1,011	1,097
Shareholders equity		
Common stock and paid-in capital: 159,537,759, 158,872,043 and 158,996,711 shares, respectively	686	669
Retained earnings	1,730	1,746
Accumulated other comprehensive loss	(56)	(73)
Less: Treasury stock at cost: 4,573,992, 4,522,437, and 4,522,437 shares, respectively	(100)	(99)
Total shareholders equity	2,260	2,243
	$ 3,271	$ 3,340

See Accompanying Notes to Condensed Consolidated Financial Statements.

* The balance sheet at February 2, 2008 has been revised from the previously reported audited financial statements at that date (see note 2). This does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Companys Annual Report on Form 10-K for the year ended February 2, 2008.

FOOT LOCKER, INC.

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

	Thirteen weeks ended		**Twenty-six weeks ended**	
	August 2, 2008	**August 4, 2007**	**August 2, 2008**	**August 4, 2007**
Sales	$ 1,302	$ 1,283	$ 2,611	$ 2,599
Costs and Expenses				
Cost of sales	941	981	1,884	1,937
Selling, general and administrative expenses	299	286	598	576
Depreciation and amortization	33	44	65	87
Impairment charge and store closing program costs	1		20	
Interest expense, net	2		3	
Other (income) expense	(2)	1	(2)	1
	1,274	1,312	2,568	2,601
Income (loss) before income taxes	28	(29)	43	(2)
Income tax expense (benefit)	10	(11)	22	(1)
Net income (loss)	$ 18	$ (18)	$ 21	$ (1)

Basic earnings (loss) per share:								
Net income (loss)	$	0.11	$	(0.12)	$	0.13	$	(0.01)
Weighted-average common shares outstanding		154.0		154.0		153.9		154.4
Diluted earnings (loss) per share:								
Net income (loss)	$	0.11	$	(0.12)	$	0.13	$	(0.01)
Weighted-average common shares assuming dilution		155.4		154.0		155.2		154.4

See Accompanying Notes to Condensed Consolidated Financial Statements.

FOOT LOCKER, INC.

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

	Thirteen weeks ended				Twenty-six weeks e			
	August 2, 2008		August 4, 2007		August 2, 2008		Aug 20	
Net income (loss)	$	18	$	(18)	$	21	$	
Other comprehensive income (expense), net of tax								
Foreign currency translation adjustments arising during the period		(1)		5		17		
Pension and postretirement plan adjustments		—		—		—		
Change in fair value of derivatives		1		—		1		
Unrealized loss on available-for sale security		(2)		—		(2)		
Comprehensive income (loss)	$	16	$	(13)	$	37	$	

See Accompanying Notes to Condensed Consolidated Financial Statements.

FOOT LOCKER, INC.

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

	Twenty-six weeks ended			
	August 2, 2008		August 4, 2007	
From Operating Activities:				
Net income (loss)	$	21	$	(1)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Impairment charge		15		—
Depreciation and amortization		65		87
Deferred income taxes		6		(19)
Share-based compensation expense		6		5
Change in assets and liabilities:				
Merchandise inventories		(109)		(132)
Accounts payable and other accruals		135		98
Pension contributions		(6)		—

Income tax payable	(8)	13
Other, net	34	2
Net cash provided by operating activities	159	53
From Investing Activities:		
Gain from lease termination	2	
Purchases of short-term investments		(929)
Sales of short-term investments		1,019
Capital expenditures	(79)	(83)
Net cash (used in) provided by investing activities	(77)	7
From Financing Activities:		
Reduction in long-term debt	(94)	(2)
Issuance of common stock, net	2	8
Purchase of treasury stock		(50)
Excess tax benefit from stock based compensation		1
Dividends paid	(47)	(39)
Net cash used in financing activities	(139)	(82)
Effect of exchange rate fluctuations on Cash and Cash Equivalents		5
Net change in Cash and Cash Equivalents	(57)	(17)
Cash and Cash Equivalents at beginning of year	488	221
Cash and Cash Equivalents at end of interim period	$ 431	$ 204
Cash paid during the period:		
Interest	$ 8	$ 9
Income taxes	$ 40	$ 30

See Accompanying Notes to Condensed Consolidated Financial Statements.

FOOT LOCKER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated financial statements contained in this report are unaudited. In the opinion of management, all adjustments, which are of a normal recurring nature, necessary for a fair presentation of the results for the interim periods of the fiscal year ending January 31, 2009 and of the fiscal year ended February 2, 2008. Certain items included in these statements are based on managements estimates. Actual results may differ from those estimates. The results of operations for any interim period are not necessarily indicative of the results expected for the year. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Notes to Consolidated Financial Statements contained in the Companys Form 10-K for the year ended February 2, 2008, as filed with the Securities and Exchange Commission (the SEC) on March 31, 2008.

Recent Accounting Pronouncements

In March 2008, the FASB issued FASB Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities - An Amendment of FASB Statement No. 133 (SFAS No. 161). SFAS No. 161 amends SFAS No.

133 by requiring expanded disclosures about an entitys derivative instruments and hedging activities. SFAS No. 161 requires qualitative disclosures about objectives and strategies for using derivative instruments, quantitative disclosures about the fair values of derivative instruments and their gains and losses, and disclosures about credit-risk-related contingent features in derivative instruments. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The Company is currently assessing the effect that the adoption of this standard will have on its financial statement disclosures.

In April 2008, the FASB issued FASB Staff Position (FSP 142-3) No. FAS 142-3, Determination of the Useful Life of Intangible Assets. FSP No. FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company is currently assessing the potential effect of FSP 142-3 on its financial statements.

In May 2008, the FASB issued FASB Statement No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS No. 162). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles in the United States. This statement is not expected to change existing practices but rather reduce the complexity of financial reporting. This statement will go into effect 60 days after the SEC approves related auditing rules.

In June 2008, the FASB issued FASB Staff Position (FSP) EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities. FSP EITF 03-6-1 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. The FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. Upon adoption, a company is required to retrospectively adjust its earnings per share data (including any amounts related to interim periods, summaries of earnings and selected financial data) to conform with the provisions of FSP EITF 03-6-1. The Company is currently assessing the potential effect of FSP EITF 03-6-1on its financial statements.

2. Immaterial Revision of Previously Issued Financial Statements

During the preparation of the Companys first quarter 2008 Form 10-Q, the Company discovered that its 2007 fourth quarter and full year income tax provision was incorrect. 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 $4 million. This overstatement was comprised primarily of two items. The Company understated its income taxes payable by $9 million due to incorrectly accounting for foreign dividend withholding taxes. In addition, 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 movements within the income tax provision. The Company has determined that these adjustments are not considered material to the reported results of 2007 and, accordingly, has adjusted its opening retained earnings to reflect the correction of these items.

The table below reflects these adjustments on each financial statement line item and per-share amounts affected:

	Year ended February 2, 2008		
(in millions)	**As Originally Reported**	**Revision**	**As Adjusted**
Other current assets	$ 290	$ 1	$ 291
Total assets	3,248	1	3,249
Accrued expenses and other current liabilities	268	10	278
Retained earnings	1,760	(4)	1,756
Accumulated other comprehensive loss	(66)	(5)	(71)
Total shareholders equity	2,271	(9)	2,262

Total liabilities and shareholders equity	$ 3,248	$ 1	$ 3,249

	Year ended February 2, 2008		
	As Originally Reported	**Revision**	**As Adjusted**
Loss from continuing operations before income taxes	$ (50)	$	$ (50)
Income tax benefit	(99)	4	(95)
Income from continuing operations	$ 49	$ (4)	$ 45
<u>Basic earnings per share</u>			
Income from continuing operations	$ 0.32	(0.03)	$ 0.29
<u>Diluted earnings per share</u>			
Income from continuing operations	$ 0.32	$ (0.03)	$ 0.29

3. <u>Impairment Charge and Store Closing Program</u>

On January 23, 2001, the Company announced that it was exiting its Northern Group segment. During the second quarter of 2001, the Company completed the liquidation of the 324 stores in the United States. On September 28, 2001, the Company completed the stock transfer of the 370 Northern Group stores in Canada, through one of its wholly owned subsidiaries for approximately CAD$59 million, which was paid in the form of a note. Over the last several years, the note has been amended and payments have been received, however, the interest and payment terms remained unchanged. 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. During the first quarter of 2008, the principal owners of the Northern Group requested an extension on the repayment of the note. The Company determined, based on the Northern Groups current financial condition and projected performance, that repayment of the note pursuant to the original terms of the purchase agreement is not likely. Accordingly, a non-cash impairment charge of $15 million was recorded during the first quarter of 2008 in accordance with SFAS No.114, Accounting by Creditors for Impairment of a Loan. This charge has been recorded with no tax benefit. The tax benefit is a capital loss that can only be used to offset capital gains. The Company does not anticipate recognizing sufficient capital gains to utilize these losses. Therefore, the Company determined that a full valuation allowance was required.

Another wholly owned subsidiary of the Company was the assignor of the store leases involved in the transaction and therefore retains potential liability for such leases. As the assignor of the Northern Canada leases, the Company remained secondarily liable under these leases. As of August 2, 2008, the Company estimates that its gross contingent lease liability is CAD$3 million. The Company currently estimates the expected value of the lease liability to be insignificant. The Company believes that, because it is secondarily liable on the leases, it is unlikely that it would be required to make such contingent payments.

During the first half of 2008, the Company closed 17 unproductive stores as part of the program announced in 2007 to close 66 unproductive stores. Exit costs of $1 million and $5 million for the thirteen and twenty-six weeks ended August 2, 2008, respectively, comprising primarily lease termination costs, were recognized in accordance with SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. During 2008, the Company currently expects to close three additional unproductive stores prior to normal lease expiration, depending on the Companys success in negotiating agreements with its landlords. The lease exit costs associated with these remaining closures is expected to total approximately $1 million and will be recorded during 2008 in accordance with SFAS No. 146. The cash impact of the 2008 store closings is expected to be minimal, as the related cash lease costs are expected to be offset by associated inventory reductions. Under SFAS No. 144, store closings may constitute discontinued operations if migration of customers and cash flows are not expected. The Company has concluded that no store closings have met the criteria for discontinued operations treatment.

4. Goodwill and Intangible Assets

The Company accounts for goodwill and other intangibles in accordance with SFAS No. 142, “Goodwill and Other Intangible Assets,” which requires that goodwill and intangible assets with indefinite lives be reviewed for impairment if impairment indicators arise and, at a minimum, annually. During the first quarters of 2008 and 2007, the Company completed its annual reviews of goodwill and the indefinite life trademark, which did not result in an impairment charge.

Goodwill (in millions)	August 2, 2008	August 4, 2007	February 2, 2008
Athletic Stores	$ 187	$ 185	$ 186
Direct-to-Customers	80	80	80
	$ 267	$ 265	$ 266

The effect of foreign exchange fluctuations on goodwill for the twenty-six weeks ended August 2, 2008 was $1 million resulting from the strengthening of the euro in relation to the U.S. dollar.

	August 2, 2008			August 4, 2007			February 2, 2008		
(in millions)	Gross value	Accum. amort.	Net value	Gross value	Accum. amort.	Net value	Gross value	Accum. amort.	N va
Indefinite life intangible assets	$ 3	$ —	$ 3	$ 3	$ —	$ 3	$ 3	$ —	$
Finite life intangible assets									
Lease acquisition costs	$ 202	$ (137)	$ 65	$ 185	$ (110)	$ 75	$ 198	$ (125)	$
Trademark	21	(4)	17	21	(3)	18	21	(4)	
Loyalty program	1	(1)	—	1	(1)	—	1	(1)	
Favorable leases	10	(7)	3	10	(6)	4	10	(7)	
Total finite life intangible assets	$ 234	$ (149)	$ 85	$ 217	$ (120)	$ 97	$ 230	$ (137)	$
Total intangible assets	$ 237	$ (149)	$ 88	$ 220	$ (120)	$ 100	$ 233	$ (137)	$

Intangible assets not subject to amortization at August 2, 2008, August 4, 2007, and February 2, 2008 include a $3 million trademark related to the 11 stores acquired in the Republic of Ireland.

Lease acquisition costs represent amounts that are required to secure prime lease locations and other lease rights, primarily in Europe. Included in finite life intangibles are the trademark for the Footaction name, amounts paid for leased locations with rents below their fair value for the acquisitions of both the Footaction stores and the stores in the Republic of Ireland, and amounts paid to obtain names of members of the Footaction loyalty program.

The weighted-average amortization period as of August 2, 2008 was approximately 12.3 years. Amortization expense was $5 million and $4 million for the thirteen week periods ended August 2, 2008 and August 4, 2007, respectively. Amortization expense was $9 million for both the twenty-six week periods ended August 2, 2008 and August 4, 2007. Additionally, the net intangible activity for the twenty-six week period ended August 2, 2008, primarily reflects the effect of the strengthening of the euro in relation to the U.S. dollar of $3 million. Annual estimated amortization expense is expected to be approximately $9 million for the remainder of 2008, $17 million for 2009, $15 million for 2010, $12 million for 2011, and $10 million for 2012.

5. Long-Term Debt and Revolving Credit Facility

On May 16, 2008, the Company entered into an amended credit agreement with its banks, providing for a $175 million revolving credit facility and extending the maturity date to May 16, 2011 (the Credit Agreement). The Credit Agreement also provides an incremental facility of up to $100 million under certain circumstances. Simultaneously with entering the Credit Agreement, the Company repaid the $88 million that was outstanding on its term loan with the banks, which was scheduled to mature in May 2009.

The Credit Agreement provides that the Company comply with certain financial covenants, including (i) a fixed charge coverage ratio of 1.25:1 for the 2008 fiscal year, 1.50:1 for the 2009 fiscal year, and 1.75:1 for each year thereafter and (ii) a minimum liquidity/excess cash flow covenant, which provides that if at the end of any fiscal quarter minimum liquidity is less than $350 million, the excess cash flow for the four consecutive fiscal quarters ended on such date must be at least $25 million. The amount permitted to be paid by the Company as dividends in any fiscal year is $105 million under the terms of the Credit Agreement. With regard to stock purchases, the Credit Agreement provides that not more than $50 million in the aggregate may be expended unless the fixed charge coverage ratio is at least 2.0:1 for the period of four consecutive fiscal quarters most recently ended prior to any stock repurchase. Additionally, the Credit Agreement provides for a security interest in certain of the Companys intellectual property and certain other non-inventory assets.

During the first half of 2008, the Company purchased and retired $6 million of the $200 million 8.50 percent debentures payable in 2022, bringing the outstanding balance to $123 million as of August 2, 2008. The fair value of the interest rate swaps, included in other assets, was approximately $2 million at August 2, 2008 and the carrying value of the 8.50 percent debentures was increased by the corresponding amount.

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6. Derivative Financial Instruments

Derivative Holdings Designated as Hedges

Net changes in the fair value of foreign exchange derivative financial instruments designated as cash flow hedges, and income/losses recognized in the income statement related to settled contracts, were not significant for the twenty-six weeks ended August 2, 2008 and August 4, 2007.

The Company has numerous investments in foreign subsidiaries, and the net assets of those subsidiaries are exposed to foreign currency exchange-rate volatility. The Company has entered into two net investment hedges for its European and Canadian subsidiaries. Gains and losses related to these transactions due to foreign exchange fluctuations will partially offset gains and losses in the net investments in the Companys European and Canadian subsidiaries. The gains and losses, net of tax, will be recorded within the foreign currency translation adjustment included in accumulated other comprehensive loss on the Condensed Consolidated Balance Sheet. The amount recorded within the foreign currency translation adjustment related to these net investment hedges for the period ended August 2, 2008 was $38 million, or $24 million after-tax, which represents an after-tax increase of $4 million from the beginning of the year. The amount recorded as of August 4, 2007 was $18 million, or $11 million after-tax.

Derivative Holdings Designated as Non-Hedges

The Company had foreign currency option contracts with a total notional amount of $55 million outstanding at the end of the second quarter of 2008. These contracts are designed to mitigate the effect of fluctuating foreign exchange rates on the reporting of a portion of its expected 2008 foreign currency denominated earnings. Changes in the fair value of these foreign currency option contracts, which are designated as non-hedges, are recorded in earnings immediately. The premiums paid and changes in the fair market value were not significant for the thirteen and twenty-six weeks ended August 2, 2008 and were $1 million for the thirteen and twenty-six weeks ended August 4, 2007.

In addition, the Company has entered into forward foreign exchange contracts to hedge foreign-currency denominated merchandise purchases and intercompany transactions. At August 2, 2008, the USD equivalent notional amount for outstanding forward foreign exchange contracts totaled $68 million. Net changes in the fair

value of foreign exchange derivative financial instruments designated as non-hedges were not significant and were substantially offset by the changes in value of the underlying transactions, which were recorded in selling, general and administrative expenses in the current period.

During the second quarter of 2008, the Company entered into a series of monthly diesel fuel forward contracts to mitigate a portion of the Company's freight expense due to the variability caused by fuel surcharges imposed by our third-party freight carriers. The notional values of these contracts were approximately $1 million and extend through October 2008. Changes in the fair value of these contracts are recorded in earnings immediately. The effect was not significant for the thirteen weeks ended August 2, 2008. Additionally, the Company had fuel forward contracts in place as of August 4, 2007 and the effects of those contracts were also not significant.

Interest Rate Management

The Company has employed various interest rate swaps to minimize its exposure to interest rate fluctuations. These swaps, which mature in 2022, have been designated as a fair value hedge of the changes in fair value of $100 million of the Company's 8.50 percent debentures payable in 2022 attributable to changes in interest rates. The swaps effectively convert the interest rate on the debentures from 8.50 percent to a 1-month variable rate of LIBOR plus 3.45 percent which equaled 5.91 percent and 8.78 percent at August 2, 2008 and August 4, 2007, respectively.

7. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss comprised the following:

(in millions)	August 2, 2008	August 4, 2007	February 2, 2008
Foreign currency translation adjustments	$ 109	$ 62	$ 92
Cash flow hedge	—	—	1
Unrecognized pension cost and postretirement benefit	(161)	(135)	(162)
Unrealized loss on available-for-sale security	(4)	—	(2)
	$ (56)	$ (73)	$ (71)

8. Earnings Per Share

Basic earnings per share is computed using the weighted-average number of common shares outstanding for the period. Diluted earnings per share uses the weighted-average number of common shares outstanding during the period plus dilutive common stock equivalents, such as stock options and awards. The computation of earnings per share is as follows:

	Thirteen weeks ended		Twenty-six weeks ended	
(in millions)	August 2, 2008	August 4, 2007	August 2, 2008	August 4, 2007
Net income (loss)	$ 18	$ (18)	$ 21	$ (1)
Weighted-average common shares outstanding	154.0	154.0	153.9	154.4
Effect of Dilution:				
Stock options and awards	1.4	—	1.3	—
Weighted-average common shares assuming dilution	155.4	154.0	155.2	154.4

Options to purchase 4.5 million and 3.5 million shares of common stock were not included in the computation for the thirteen weeks ended August 2, 2008 and August 4, 2007, respectively. Options to purchase 4.8 million and 3.3 million shares of common stock were not included in the computation for the twenty-six weeks ended August 2, 2008 and August 4, 2007, respectively. These options were not included because the exercise prices of the options were greater than the average market price of the common shares and, therefore, the effect would be antidilutive. Additionally, options and awards of 1.8 million were excluded from the calculation of diluted earnings per share for both the thirteen and twenty-six weeks ended August 4, 2007 as the effect would be antidilutive due to the net losses reported for these respective periods.

9. Segment Information

The Company has determined that its reportable segments are those that are based on its method of internal reporting. As of August 2, 2008, the Company has two reportable segments, Athletic Stores and Direct-to-Customers. The Company also operated the Family Footwear segment under the Footquarters brand name during the second quarter of 2007. During the third quarter of 2007, the Company converted the Footquarters stores, which were the only stores reported under the Family Footwear segment, to Foot Locker and Champs Sports outlet stores.

Sales and division results for the Companys reportable segments for the thirteen and twenty-six weeks ended August 2, 2008 and August 4, 2007 are presented below. Division profit (loss) reflects income (loss) before income taxes, corporate expense, non-operating income and net interest expense.

Sales

	Thirteen weeks ended		Twenty-six weeks ended	
(in millions)	**August 2, 2008**	**August 4, 2007**	**August 2, 2008**	**August 4, 2007**
Athletic Stores	$ 1,223	$ 1,209	$ 2,440	$ 2,435
Direct-to-Customers	79	72	171	162
Family Footwear		2		2
Total sales	$ 1,302	$ 1,283	$ 2,611	$ 2,599

Operating Results

	Thirteen weeks ended		Twenty-six weeks ended	
(in millions)	**August 2, 2008**	**August 4, 2007**	**August 2, 2008**	**August 4, 2007**
Athletic Stores [1]	$ 39	$ (13)	$ 79	$ 21
Direct-to-Customers	8	6	18	17
Family Footwear		(4)		(6)
Division profit (loss)	47	(11)	97	32
Corporate expense, net [2]	19	17	53	33
Operating profit (loss)	28	(28)	44	(1)
Other (income) expense [3]	(2)	1	(2)	1
Interest expense, net	2		3	
Income (loss) before income taxes	$ 28	$ (29)	$ 43	$ (2)

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(1) Included in the results for the thirteen and twenty-six weeks ended August 2, 2008 are store closing costs of $1 million and $5 million, respectively, which primarily represent lease termination costs.

(2)

Included in corporate expense for the twenty-six weeks ended August 2, 2008 is a $15 million impairment charge on the Northern Group note receivable.

(3) Included in other (income) expense for the twenty-six weeks ended August 2, 2008 is a lease termination gain related to sale of a leasehold interest in Europe. The amount included in the prior year represented premiums paid on foreign currency option contracts and the changes in fair value of those contracts.

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10. Pension and Postretirement Plans

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

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

	Pension Benefits				**Postretirement Benefits**			
	Thirteen weeks ended		**Twenty-six weeks ended**		**Thirteen weeks ended**		**Twenty-six weeks ended**	
	August 2, 2008	**August 4, 2007**	**August 2, 2008**	**August 4, 2007**	**August 2, 2008**	**August 4, 2007**	**August 2, 2008**	**August 4, 2007**
Service cost	$ 3	$ 2	$ 5	$ 5	$ □	$ □	$ □	$ □
Interest cost	9	9	18	18	□	□	□	□
Expected return on plan assets	(14)	(14)	(27)	(28)	□	□	□	□
Amortization of service cost								