FOOT LOCKER INC
Form 10-Q
December 09, 2009

UNITED STATES
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 October 31, 2009

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 o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes o 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

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 November 27, 2009: 156,514,695

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)

	October 31, 2009 (Unaudited)	November 1, 2008 (Unaudited)	January 31, 2009 *
ASSETS			
Current assets			
Cash and cash equivalents	$ 425	$ 328	$ 385
Short-term investments	13	72	23
Merchandise inventories	1,228	1,262	1,120
Other current assets	216	238	236
	1,882	1,900	1,764
Property and equipment, net	400	505	432
Deferred taxes	376	232	358
Goodwill	146	264	144
Other intangibles and other assets	159	128	179
	$ 2,963	$ 3,029	$ 2,877
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable	$ 276	$ 271	$ 187
Accrued expenses and other current liabilities	202	240	231
	478	511	418
Long-term debt	138	128	142
Other liabilities	365	228	393
	981	867	953
Shareholders' equity			
Common stock and paid-in capital: 161,224,691, 159,572,066 and 159,598,233 shares, respectively	706	689	691
Retained earnings	1,536	1,729	1,581
Accumulated other comprehensive loss	(157)	(154)	(246)
Less: Treasury stock at cost: 4,723,330, 4,663,992, and 4,680,533 shares, respectively	(103)	(102)	(102)
Total shareholders' equity	1,982	2,162	1,924
	$ 2,963	$ 3,029	$ 2,877

See Accompanying Notes to Condensed Consolidated Financial Statements.

* The balance sheet at January 31, 2009 has been derived from the previously reported audited financial statements at that date, but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended January 31, 2009.

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FOOT LOCKER, INC.

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

	Thirteen weeks ended		Thirty-nine weeks ended	
	October 31, 2009	November 1, 2008	October 31, 2009	November 1, 2008
Sales	$ 1,214	$ 1,309	$ 3,529	$ 3,920
Costs and Expenses				
Cost of sales	885	954	2,564	2,838
Selling, general and administrative expenses	274	287	804	885
Depreciation and amortization	29	32	85	97
Impairment charge and store closing program costs	36	3	36	23
Interest expense, net	3	1	8	4
Other income, net	—	(5)	(2)	(7)
	1,227	1,272	3,495	3,840
(Loss) income from continuing operations before income taxes	(13)	37	34	80
Income tax (benefit) expense	(7)	13	10	35
(Loss) income from continuing operations	(6)	24	24	45
Income from disposal of discontinued operations, net of tax	—	—	1	—
Net (loss) income	$ (6)	$ 24	$ 25	$ 45
Basic (loss) earnings per share:				
(Loss) income from continuing operations	(0.04)	0.16	0.16	0.29
Income from disposal of discontinued operations	—	—	—	—
Net (loss) income	$ (0.04)	$ 0.16	$ 0.16	$ 0.29
Weighted-average common shares outstanding	156.4	154.1	155.9	154.0
Diluted (loss) earnings per share:				
(Loss) income from continuing operations	(0.04)	0.16	0.16	0.29
Income from disposal of discontinued operations	—	—	—	—
Net (loss) income	$ (0.04)	$ 0.16	$ 0.16	$ 0.29
Weighted-average common shares assuming dilution	156.4	155.6	156.1	155.3

See Accompanying Notes to Condensed Consolidated Financial Statements.

FOOT LOCKER, INC.

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

	Thirteen weeks ended		Thirty-nine weeks ended	
	October 31, 2009	November 1, 2008	October 31, 2009	November 1, 2008
Net (loss) income	$ (6)	$ 24	$ 25	$ 45
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments arising during the period	28	(106)	90	(89)
Pension and postretirement plan adjustments	1	—	3	—
Change in fair value of derivatives	1	—	(1)	(1)
Unrealized gain (loss) on available-for-sale security	—	—	2	(2)
Comprehensive income (loss)	$ 24	$ (82)	$ 119	$ (47)

See Accompanying Notes to Condensed Consolidated Financial Statements.

FOOT LOCKER, INC.

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

	Thirty-nine weeks ended October 31, 2009	Thirty-nine weeks ended November 1, 2008
From Operating Activities:		
Net income	$ 25	$ 45
Adjustments to reconcile net income to net cash provided by operating activities:		
Income from disposal of discontinued operations, net of tax	(1)	—
Non-cash impairment charges	36	18
Depreciation and amortization	85	97
Share-based compensation expense	9	6
Change in assets and liabilities:		
Merchandise inventories	(69)	(28)
Accounts payable	82	47
Other accruals	(41)	(4)
Qualified pension plan contributions	(40)	(6)
Gain on termination of interest rate swaps	19	—
Other, net	35	35
Net cash provided by operating activities of continuing operations	140	210
From Investing Activities:		
Gain from lease termination	—	3
Gain from insurance recoveries	1	—
Short-term investment redemptions	10	—
Reclassification of cash equivalents to short-term investments	—	(75)
Capital expenditures	(70)	(116)
Net cash used in investing activities of continuing operations	(59)	(188)
From Financing Activities:		
Reduction in long-term debt	(3)	(94)
Issuance of common stock, net	2	2
Dividends paid	(70)	(70)
Net cash used in financing activities of continuing operations	(71)	(162)
Net cash used in operating activities of Discontinued Operations	(1)	—
Effect of exchange rate fluctuations on Cash and Cash Equivalents	31	(20)
Net change in Cash and Cash Equivalents	40	(160)
Cash and Cash Equivalents at beginning of year	385	488
Cash and Cash Equivalents at end of interim period	$ 425	$ 328
Cash paid during the period:		
Interest	$ 6	$ 10
Income taxes	$ 13	$ 51

See Accompanying Notes to Condensed Consolidated Financial Statements.

FOOT LOCKER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated financial statements contained in this report are unaudited. In the opinion of management, the condensed consolidated financial statements include all adjustments, which are of a normal recurring nature, necessary for a fair presentation of the results for the interim periods of the fiscal year ending January 30, 2010 and of the fiscal year ended January 31, 2009. Certain items included in these statements are based on management's estimates. Actual results may differ from those estimates. The results of operations for any interim period are not necessarily indicative of the results expected for the year. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Notes to Consolidated Financial Statements contained in the Company's Form 10-K for the year ended January 31, 2009, as filed with the Securities and Exchange Commission (the "SEC") on March 30, 2009. Subsequent events have been evaluated through December 9, 2009, the date of issuance of the Company's Condensed Consolidated Financial Statements. The Company has not evaluated subsequent events after such date.

As disclosed in the Company's 2008 Annual Report on Form 10-K, the Condensed Consolidated Balance Sheet for the quarter ended November 1, 2008 has been corrected to reflect an immaterial revision related to income taxes. This correction did not affect the Condensed Consolidated Statement of Operations for the period ended November 1, 2008.

Recent Accounting Pronouncements

In April 2009, the Financial Accounting Standards Board ("FASB") amended the authoritative guidance for fair value measurements to provide additional guidance on (i) estimating fair value when the volume and level of activity for an asset or liability have significantly decreased in relation to normal market activity for the asset or liability, and (ii) circumstances that may indicate that a transaction is not orderly. This guidance, which is effective for interim and annual reporting periods ending after June 15, 2009, also requires additional disclosures about fair value measurements in interim and annual reporting periods. The adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

In April 2009, the FASB issued authoritative guidance, which amends prior guidance and requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies, as well as in annual financial statements, and requires those disclosures in summarized financial information at interim reporting periods. The guidance is effective for interim reporting periods ending after June 15, 2009. The disclosures required as a result of the adoption of this guidance are included herein.

In April 2009, the FASB issued authoritative guidance, which amends its other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This guidance does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. The guidance is effective for interim and annual reporting periods ending after June 15, 2009. The adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

In May 2009, the FASB issued authoritative guidance on subsequent events, which establishes the accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The guidance is effective for interim and annual reporting periods ending after June 15, 2009. The Company adopted the guidance during the second quarter of 2009. See Note 1, Basis of Presentation, for the disclosure required under the guidance.

In June 2009, the FASB issued authoritative guidance, which changes various aspects of accounting for and disclosures of interests in variable interest entities. This guidance will be effective for interim and annual reporting periods beginning after November 15, 2009. The adoption of this guidance is not expected to have a material effect on the Company’s consolidated financial statements.

In July of 2009, the Company adopted the FASB Accounting Standards Codification ("ASC" and collectively, the "Codification"), which establishes the Codification as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with Generally Accepted Accounting Principles ("GAAP"). The historical GAAP hierarchy was eliminated and the Codification became the only level of authoritative GAAP, other than guidance issued by the SEC. The FASB will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standard Updates ("ASUs"). ASUs will serve to update the Codification, provide background information about the guidance and provide the basis for conclusions on change(s) in the Codification. The Codification is effective for all financial statements issued for interim and annual periods ending after September 15, 2009. Accordingly, the Company has reflected all necessary changes in this filing.

In August 2009, the FASB issued ASU 2009-05, Measuring Liabilities at Fair Value, which provides clarification regarding acceptable valuation techniques for determining the fair value measurement of liabilities in circumstances in which a quoted price in an active market for the identical liability is not available. ASU 2009-05 is effective for interim and annual reporting periods ending after its issuance. The adoption of ASU 2009-05 did not have a material effect on the Company's consolidated financial statements.

2. Impairment Charges and Store Closing Program Costs

The Company recognizes an impairment loss when circumstances indicate that the carrying value of long-lived tangible and intangible assets with finite lives may not be recoverable. Management's policy in determining whether an impairment indicator, or a triggering event, exists comprises measurable operating performance criteria at the division level as well as qualitative measures. If an analysis is necessitated by the occurrence of a triggering event, the Company uses assumptions, which are predominately identified from the Company's three-year strategic plans, in determining the impairment amount. In the calculation of the fair value of long-lived assets, the Company compares the carrying amount of the asset with the estimated future cash flows expected to result from the use of the asset. If the carrying amount of the asset exceeds the estimated expected undiscounted future cash flows, the Company measures the amount of the impairment by comparing the carrying amount of the asset with its estimated fair value. The estimation of fair value is measured by discounting expected future cash flows at the Company's weighted-average cost of capital. During the third quarter of 2009, the Company recorded non-cash impairment charges totaling $36 million. A charge of $32 million was recorded to write-down long-lived assets such as store fixtures and leasehold improvements at its Lady Foot Locker, Kids Foot Locker, Footaction and Champs Sports divisions for 787 stores. Additionally, the Company recorded a charge of $4 million to write off certain software development costs for the Direct-to-Customers segment as a result of management's decision to terminate this project.

Included in the thirteen weeks ended November 1, 2008 is a $3 million impairment charge to reflect a decline in fair value that is other-than-temporary related to the Company's investment in the Reserve International Liquidity Fund. Additionally, included in the thirty-nine weeks ended November 1, 2008 is a non-cash impairment charge of $15 million related to the Northern Group note that was determined not to be collectible as well as $5 million in store closing costs, primarily representing lease termination costs.

3. Goodwill and Other Intangible Assets

The Company reviews goodwill and intangible assets with indefinite lives for impairment annually during the first quarter of its fiscal year or more frequently if impairment indicators arise. The Company's annual review of goodwill and assets with indefinite lives during the first quarters of 2009 and 2008, did not result in any impairment charges. The following table provides a summary of the Company's goodwill by reportable segment:

	October 31,	November 1,	January 31,

Goodwill (in millions)	2009	2008	2009
Athletic Stores	$ 19	$ 184	$ 17
Direct-to-Customers	127	80	127
	$ 146	$ 264	$ 144

The change in goodwill from the amount reported at November 1, 2008 primarily reflects the acquisition of CCS during the fourth quarter of 2008, which increased goodwill by $47 million, and the fourth quarter 2008 impairment charge of $167 million related to the Athletic Stores.

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

	October 31, 2009			November 1, 2008			January 31, 2009		
(in millions)	Gross Value	Accum. amort.	Net value	Gross value	Accum. amort.	Net value	Gross value	Accum. amort.	Net value
Finite life intangible assets:									
Lease acquisition costs	$ 193	$ (147)	$ 46	$ 171	$ (119)	$ 52	$ 173	$ (124)	$ 49
Trademark	20	(6)	14	21	(5)	16	20	(5)	15
Loyalty program	1	(1)	—	1	(1)	—	1	(1)	—
Favorable leases	10	(8)	2	9	(7)	2	9	(7)	2
CCS customer relationships	21	(4)	17	—	—	—	21	(1)	20
Total finite life intangible assets	245	(166)	79	202	(132)	70	224	(138)	86
Intangible assets not subject to amortization:									
Republic of Ireland trademark	2	—	2	3	—	3	2	—	2
CCS trade-name	25	—	25	—	—				