

FOOT LOCKER INC
Form 10-Q
December 11, 2013

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: November 2, 2013

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

For the transition period from _____ to _____

Commission File Number: 1-10299

FOOT LOCKER, INC.

(Exact Name of Registrant as Specified in its Charter)

New York

(State or Other Jurisdiction of Incorporation or Organization)

13-3513936

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

112 West 34th Street, New York, New York, 10120

(Address of Principal Executive Offices, Zip Code)

(212-720-3700)

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

Number of shares of Common Stock outstanding at November 29, 2013: 146,739,055

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)

	November 2, 2013 (Unaudited)	October 27, 2012 (Unaudited)	February 2, 2013 *
ASSETS			
Current assets			
Cash and cash equivalents	\$ 764	\$ 804	\$ 880
Short-term investments	32	49	48
Merchandise inventories	1,316	1,240	1,167
Other current assets	208	202	268
	2,320	2,295	2,363
Property and equipment, net	589	462	490
Deferred taxes	257	285	257
Goodwill	163	144	145
Other intangibles and other assets	148	113	112
	\$ 3,477	\$ 3,299	\$ 3,367
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable	\$ 310	\$ 327	\$ 298
Accrued expenses and other current liabilities	330	298	338
Current portion of capital lease obligations	3		
	643	625	636
Long-term debt and obligations under capital leases	137	133	133
Other liabilities	231	252	221
	1,011	1,010	990
Shareholders' equity			
Common stock and paid-in capital: 168,675,093, 166,510,340 and 166,909,151 shares, respectively	905	842	856
Retained earnings	2,295	1,999	2,076
Accumulated other comprehensive loss	(170)	(203)	(171)
Less: Treasury stock at cost: 22,035,758, 15,800,222 and 16,839,222 shares, respectively	(564)	(349)	(384)
Total shareholders' equity	2,466	2,289	2,377
	\$ 3,477	\$ 3,299	\$ 3,367

See Accompanying Notes to Condensed Consolidated Financial Statements.

* The balance sheet at February 2, 2013 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 February 2, 2013.

FOOT LOCKER, INC.**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited)

(in millions, except per share amounts)

	Thirteen weeks ended		Thirty-nine weeks ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Sales	\$ 1,622	\$ 1,524	\$ 4,714	\$ 4,469
Cost of sales	1,085	1,019	3,163	2,999
Selling, general and administrative expenses	340	319	969	931
Depreciation and amortization	35	30	97	88
Other charges			2	
Interest expense, net	2	1	4	3
Other income			(3)	(1)
	1,462	1,369	4,232	4,020
Income before income taxes	160	155	482	449
Income tax expense	56	49	174	156
Net income	\$ 104	\$ 106	\$ 308	\$ 293
Basic earnings per share	\$ 0.70	\$ 0.70	\$ 2.06	\$ 1.93
Weighted-average common shares outstanding	147.7	151.0	149.2	151.4
Diluted earnings per share	\$ 0.70	\$ 0.69	\$ 2.04	\$ 1.90
Weighted-average common shares assuming dilution	149.5	153.9	151.2	154.0

See Accompanying Notes to Condensed Consolidated Financial Statements.

FOOT LOCKER, INC.**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Unaudited)

(in millions)

	Thirteen weeks ended		Thirty-nine weeks ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Net income	\$ 104	\$ 106	\$ 308	\$ 293
Other comprehensive income (loss), net of income tax				
Foreign currency translation adjustment:				
Translation adjustment arising during the period, net of income tax	22	35	(5)	(7)
Cash flow hedges:				
Change in fair value of derivatives, net of income tax	(2)	2	(2)	1
Available for sale securities:				
Unrealized gain				1
Pension and postretirement adjustments:				
Amortization of net actuarial gain/loss included in net periodic benefit costs, net of income tax expense of \$1 \$1, \$3, and \$3 million, respectively	3	2	7	6
Comprehensive income	\$ 127	\$ 145	\$ 308	\$ 294

See Accompanying Notes to Condensed Consolidated Financial Statements.

FOOT LOCKER, INC.**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

(in millions)

	Thirty-nine weeks ended	
	November 2, 2013	October 27, 2012
From Operating Activities:		
Net income	\$ 308	\$ 293
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	97	88
Share-based compensation expense	19	15
Qualified pension plan contributions	(2)	
Excess tax benefits on share-based compensation	(7)	(8)
Change in assets and liabilities:		
Merchandise inventories	(108)	(172)
Accounts payable	(3)	87
Other accruals	(44)	(18)
Other, net	67	(26)
Net cash provided by operating activities	327	259
From Investing Activities:		
Lease termination gains	2	
Sales and maturities of short-term investments	38	7
Purchases of short-term investments	(23)	(57)
Capital expenditures	(157)	(120)
Purchase of business, net of cash acquired	(81)	
Net cash used in investing activities	(221)	(170)
From Financing Activities:		
Purchase of treasury shares	(167)	(94)
Dividends paid	(89)	(82)
Issuance of common stock	19	35
Treasury stock issued under employee stock purchase plan	3	5
Excess tax benefits on share-based compensation	8	9
Reduction in long-term debt		(2)
Net cash used in financing activities	(226)	(129)
Effect of exchange rate fluctuations on Cash and Cash Equivalents	4	(7)
Net change in Cash and Cash Equivalents	(116)	(47)
Cash and Cash Equivalents at beginning of year	880	851
Cash and Cash Equivalents at end of interim period	\$ 764	\$ 804
Cash paid during the period:		
Interest	\$ 5	\$ 6
Income taxes	\$ 123	\$ 182

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 February 1, 2014 and of the fiscal year ended February 2, 2013. 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 February 2, 2013, as filed with the Securities and Exchange Commission (the "SEC") on April 1, 2013.

Recent Accounting Pronouncements

During the first quarter of 2013, the Company adopted Accounting Standards Update 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income* ("ASU 2013-02"). ASU 2013-02 amended existing guidance by requiring additional disclosure either on the face of the income statement or in the notes to the financial statements of significant amounts reclassified out of accumulated other comprehensive income. The provisions of this new guidance were effective prospectively as of the beginning of 2013. Accordingly, enhanced footnote disclosure is included in *Note 5*. The adoption of ASU 2013-02 had no effect on our results of operations or financial position.

We performed our annual goodwill impairment assessment during the first quarter of 2013, using a qualitative approach as permitted under Accounting Standards Update No. 2011-08, *Testing Goodwill for Impairment*. In performing the assessment, we identified and considered the significance of relevant key factors, events, and circumstances that affected the fair value and/or carrying amounts of our reporting units. These factors included external factors such as macroeconomic, industry and market conditions, as well as entity-specific factors, such as our actual and planned financial performance. Based on the results of the impairment assessment performed, we concluded that it is more likely than not that the fair values of our reporting units substantially exceeded their respective carrying values and there are no reporting units at risk of impairment.

Other recently issued accounting pronouncements did not, or are not believed by management to, have a material effect on the Company's present or future consolidated financial statements.

2. Acquisition

Effective July 7, 2013, the Company acquired 100 percent of the shares of Runners Point Warenhandelsgesellschaft mbH, ("Runners Point Group") a specialty athletic store and online retailer based in Recklinghausen, Germany. The aggregate purchase price paid for the acquisition was \$87 million in cash, subject to adjustment for finalization of the purchase price for working capital adjustments. At the date of acquisition, Runners Point Group operated 194 stores in Germany, Austria, and the Netherlands. Additionally, there were 24 Runners Point Group franchise stores operating in Germany and Switzerland. The acquisition is intended to enhance the Company's position in Germany and also provide additional banners to further diversify and expand the Company's European business. Also, the addition of the strong digital capabilities of Tredex, the e-commerce subsidiary of Runners Point Group, allows for the potential of

accelerated e-commerce growth in Europe.

The results of Runners Point Group are included in our consolidated financial statements since the acquisition date.

FOOT LOCKER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. Acquisition (continued)

The following table summarizes allocation of the purchase price to the fair value of assets acquired, based on the exchange rate in effect at the date of our acquisition of Runners Point Group. The Company has allocated the purchase price, in part, upon internal estimates of cash flows and considering the report of a third-party valuation expert retained to assist the Company. The allocation of the purchase price in the table below is preliminary and subject to change based on the finalization of the purchase price.

(in millions)	Allocation as Revised	
Assets acquired:		
Cash and cash equivalents	\$	6
Inventory		41
Other current assets		11
Property and equipment		24
Other long-term assets		1
Tradenames		29 (1)
Favorable leases		5
Liabilities assumed:		
Accounts payable and other accruals		(27)
Income taxes and deferred taxes, net		(11)
Obligations under capital leases		(9)
Other long-term liabilities		(1)
Goodwill		18
Total purchase price	\$	87

(1) Due to foreign currency fluctuations, the U.S. dollar value of tradenames increased to \$30 million as of November 2, 2013.

We determined that the tradenames have an indefinite life and will not be amortized. These tradenames will be tested annually for impairment, along with the goodwill recorded for the purchase. The value of the favorable leases will be amortized over the terms of the respective leases.

The amount of goodwill expected to be tax deductible is \$4 million.

3. Segment Information

The Company has determined that its reportable segments are those that are based on its method of internal reporting. As of November 2, 2013, the Company has two reportable segments, Athletic Stores and Direct-to-Customers. Sales and division results for the Company's reportable segments for the thirteen weeks and thirty-nine weeks ended November 2, 2013 and October 27, 2012 are presented below. Division profit reflects income before income taxes, corporate expense, net interest expense, and net non-operating income.

As discussed in Note 2, *Acquisition*, the Company acquired Runners Point Group during the second quarter of 2013. Sales and division results for the Runners Point Group stores, including Runners Point, Sidestep and Run², are

included in the Athletic Stores segment since the date of acquisition. Sales and division results for Tredex, a direct-to-customer subsidiary of Runners Point Group, are included in the Direct-to-Customers segment since the date of acquisition.

FOOT LOCKER, INC.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****3. Segment Information - (continued)**

	Thirteen weeks ended		Thirty-nine weeks ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Sales (in millions)				
Athletic Stores	\$ 1,444	\$ 1,375	\$ 4,228	\$ 4,060
Direct-to-Customers	178	149	486	409
Total sales	\$ 1,622	\$ 1,524	\$ 4,714	\$ 4,469

	Thirteen weeks ended		Thirty-nine weeks ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Operating Results (in millions)				
Athletic Stores ⁽¹⁾	\$ 159	\$ 166	\$ 486	\$ 480
Direct-to-Customers	20	18	53	47
Division profit	179	184	539	527
Less: Corporate expense, net	17	28	56	76
Operating profit	162	156	483	451
Other income ⁽²⁾			3	1
Interest expense, net	2	1	4	3
Income before income taxes	\$ 160	\$ 155	\$ 482	\$ 449

(1) Included in the Athletic Stores segment for the thirty-nine weeks ended November 2, 2013 is a \$2 million charge recorded in connection with the closure of all CCS stores.

(2) Other income includes non-operating items, such as lease termination gains, royalty income, and the changes in fair value, premiums paid and realized gains associated with foreign currency option contracts.

During the second quarter of 2013 the Company closed all 22 of its CCS stores. As of November 2, 2013, 12 of these stores were converted to other store formats, 2 will be converted by the end of the year and 1 will be converted during the first quarter of 2014. The CCS store closures are not presented as part of discontinued operations as the operations and cash flows related to the majority of the closed stores are expected to continue through other store formats and the Company's websites. The Company will continue to operate the CCS catalog and e-commerce website.

Athletic Stores sales include \$64 million and \$84 million for thirteen and thirty-nine week periods ended November 2, 2013, respectively, related to the Runners Point Group stores. Direct-to-Customers sales include \$8 million and \$10 million, respectively, related to the Tredex division of Runners Point Group.

Athletic Stores division profit includes \$1 million and \$3 million for thirteen and thirty-nine week periods ended November 2, 2013, respectively, related to the Runners Point Group stores. The effect on Direct-to-Customers division profit was not significant. Costs associated with the acquisition and integration of \$1 million and \$4 million for the thirteen and thirty-nine weeks ended November 2, 2013 are included in corporate expense.

4. Goodwill and Other Intangible Assets

Annually during the first quarter, or more frequently if impairment indicators arise, the Company reviews goodwill and intangible assets with indefinite lives for impairment. The annual assessment of goodwill and assets with indefinite lives performed during the first quarters of 2013 and 2012 did not result in impairment charges. The fair value of each of the reporting units substantially exceeds its carrying value for both periods. The following table provides a summary of goodwill by reportable segment.

FOOT LOCKER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. Goodwill and Other Intangible Assets - (continued)

Goodwill as of November 2, 2013 includes \$18 million relating to the acquisition of Runners Point Group, which was allocated to the segments based upon their relative fair values. Other changes include foreign exchange fluctuations. Of the \$18 million of goodwill relating to the acquisition of Runners Point Group, \$3 million was allocated to the Athletic Stores segment related to the Runners Point Group stores and \$15 million was allocated to the Direct-to-Customers segment related to the Tredex division.

	November 2, 2013	October 27, 2012	February 2, 2013
Goodwill (in millions)			
Athletic Stores	\$ 21	\$ 17	\$ 18
Direct-to-Customers	142	127	127
	\$ 163	\$ 144	\$ 145

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

(in millions)	November 2, 2013			October 27, 2012			February 2, 2013		
	Gross value	Accum. amort.	Net value	Gross value	Accum. amort.	Net value	Gross value	Accum. amort.	Net value
Amortized intangible assets:									
Lease acquisition costs	\$ 159	\$ (140)	\$ 19	\$ 163	\$ (141)	\$ 22	\$ 158	\$ (137)	\$ 21
Trademarks	21	(10)	11	21	(9)	12	21	(9)	12
Favorable leases	9	(4)	5	5	(5)		5	(5)	
Customer relationships	21	(21)		21	(17)	4	21	(18)	3
	\$ 210	\$ (175)	\$ 35	\$ 210	\$ (172)	\$ 38	\$ 205	\$ (169)	\$ 36

Indefinite life
intangible assets:

Tradenames:

Republic of Ireland	2		1			1
CCS	3		10			3
Runners Point Group		30				
		\$ 35			\$ 11	\$ 4
Other intangible assets, net		\$ 70			\$ 49	\$ 40

As of November 2, 2013, in connection with the allocation of the purchase price of the Runners Point Group acquisition, the Company recognized \$30 million of indefinite life intangible assets for the Runners Point Group tradenames. Also as a result of the purchase price allocation, \$5 million was recognized for favorable leases in 15 locations with rents below their fair value, which are being amortized over a weighted-average life of 6 years.

The change since year end also includes \$2 million of lease acquisition additions related to Foot Locker Europe, which are being amortized over a weighted-average life of 10 years. Foreign exchange fluctuations related to the euro

increased the balance by \$2 million. This was offset by amortization expense of \$9 million recorded for the thirty-nine weeks ended November 2, 2013.

FOOT LOCKER, INC.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****4. Goodwill and Other Intangible Assets - (continued)**

(in millions)	Thirteen weeks ended		Thirty-nine weeks ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Amortization expense	\$ 3	\$ 3	\$ 9	\$ 10

Future expected amortization expense for finite life intangible assets is estimated as follows:

	(in millions)
Remainder of 2013	\$ 2
2014	6
2015	5
2016	4
2017	4
2018	3

5. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss comprised the following:

(in millions)	November 2, 2013	October 27, 2012	February 2, 2013
Foreign currency translation adjustments	\$ 77	\$ 56	\$ 82
Cash flow hedges	1		3
Unrecognized pension cost and postretirement benefit	(247)	(258)	(255)
Unrealized loss on available-for-sale security	(1)	(1)	(1)
	\$ (170)	\$ (203)	\$ (171)

The changes in accumulated other comprehensive loss for the thirty-nine week period ended November 2, 2013 were as follows:

(in millions)	Foreign currency translation adjustments	Cash flow hedges	Items related to pension and postretirement benefits	Unrealized loss on available- for-sale security	Total
Balance as of February 2, 2013	\$ 82	\$ 3	\$ (255)	\$ (1)	\$ (171)
Other comprehensive income (loss) before reclassification	(5)	(2)	1		(6)
Amounts reclassified from accumulated other comprehensive income			7		7
Other comprehensive income (loss)	(5)	(2)	8		1

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Balance as of November 2, 2013	\$ 77	\$ 1	\$ (247)	\$ (1)	\$ (170)
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FOOT LOCKER, INC.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****5. Accumulated Other Comprehensive Loss- (continued)**

Reclassifications from accumulated other comprehensive loss for the thirty-nine week period ended November 2, 2013 were as follows:

(in millions)

Amortization of actuarial (gain) loss:	
Pension benefits- amortization of actuarial loss	\$12
Postretirement benefits- amortization of actuarial gain	(2)
Net periodic benefit cost (see Note 9)	10
Income tax expense	(3)
Net of tax	\$7

6. Financial Instruments

The Company operates internationally and utilizes certain derivative financial instruments to mitigate its foreign currency exposures, primarily related to third-party and intercompany forecasted transactions. As a result of the use of derivative instruments, the Company is exposed to the risk that counterparties will fail to meet their contractual obligations. To mitigate this counterparty credit risk, the Company has a policy of entering into contracts only with major financial institutions, selected based upon their credit ratings and other financial factors. The Company monitors the creditworthiness of counterparties throughout the duration of the derivative instrument.

Additional information is contained within Note 7, *Fair Value Measurements*.

Derivative Holdings Designated as Hedges

For a derivative to qualify as a hedge at inception and throughout the hedged period, the Company formally documents the nature of the hedged items and the relationships between the hedging instruments and the hedged items, as well as its risk-management objectives, strategies for undertaking the various hedge transactions, and the methods of assessing hedge effectiveness and hedge ineffectiveness. In addition, for hedges of forecasted transactions, the significant characteristics and expected terms of a forecasted transaction must be specifically identified, and it must be probable that each forecasted transaction would occur. If it were deemed probable that the forecasted transaction would not occur, the gain or loss on the derivative instrument would be recognized in earnings immediately. No such gains or losses were recognized in earnings for any of the periods presented. Derivative financial instruments qualifying for hedge accounting must maintain a specified level of effectiveness between the hedging instrument and the item being hedged, both at inception and throughout the hedged period, which management evaluates periodically.

The primary currencies to which the Company is exposed are the euro, British pound, Canadian dollar, and Australian dollar. For option and foreign exchange forward contracts designated as cash flow hedges of the purchase of inventory, the effective portion of gains and losses is deferred as a component of Accumulated Other Comprehensive Loss ("AOCL") and is recognized as a component of cost of sales when the related inventory is sold. The amount reclassified to cost of sales related to such contracts was not significant for any of the periods presented. The effective portion of gains or losses associated with other forward contracts is deferred as a component of AOCL until the underlying transaction is reported in earnings. The ineffective portion of gains and losses related to cash flow hedges recorded to earnings was also not significant for any of the periods presented. When using a forward contract as a

hedging instrument, the Company excludes the time value of the contract from the assessment of effectiveness. At each quarter-end, the Company had not hedged forecasted transactions for more than the next twelve months, and the Company expects all derivative-related amounts reported in AOCL to be reclassified to earnings within twelve months.

FOOT LOCKER, INC.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****6. Financial Instruments (continued)**

The net change in the fair value of foreign exchange derivative financial instruments designated as cash flow hedges of the purchase of inventory was not significant for any of the periods presented. The notional value of the contracts outstanding at November 2, 2013 was \$58 million and these contracts extend through July 2014.

Derivative Holdings Designated as Non-Hedges

The Company enters into foreign exchange forward contracts to hedge foreign-currency denominated merchandise purchases and intercompany transactions that are not designated as hedges. The net change in fair value was not significant for any of the periods presented. The notional value of the contracts outstanding at November 2, 2013 was \$33 million and these contracts extend through December 2013.

Additionally, the Company enters into diesel fuel forward and option 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. Changes in the fair value of these contracts are recorded in earnings immediately. The effect was not significant for any of the periods presented. The notional value of the contracts outstanding at November 2, 2013 was not significant.

Fair Value of Derivative Contracts

The following represents the fair value of the Company's derivative contracts. Many of the Company's agreements allow for a netting arrangement. The following is presented on a gross basis, by type of contract:

(in millions)	Balance Sheet Caption	November 2, 2013	October 27, 2012	February 2, 2013
Hedging Instruments:				
Foreign exchange forward contracts	Current assets	\$ 1	\$ 1	\$ 4
Foreign exchange forward contracts	Current liabilities	\$	\$ 1	\$
Non-Hedging Instruments:				
Foreign exchange forward contracts	Current assets	\$	\$	\$ 2

7. Fair Value Measurements

The Company's financial assets recorded at fair value are categorized as follows:

- Level 1** Quoted prices for identical instruments in active markets.
- Level 2** Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs or significant value-drivers are observable in active markets.
- Level 3**

Model-derived valuations in which one or more significant inputs or significant value-drivers are unobservable.

FOOT LOCKER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7. Fair Value Measurements (continued)

Fair Value of Recognized Assets and Liabilities

The following tables provide a summary of the Company's recognized assets and liabilities that are measured at fair value on a recurring basis:

(in millions)	At November 2, 2013			At October 27, 2012			At February 2, 2013		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets									
Short-term investments	\$	\$ 32	\$	\$	\$ 49	\$	\$	\$ 48	\$
Auction rate security		6			6			6	
Foreign exchange forward contracts		1			1			6	
Total Assets	\$	\$ 39	\$	\$	\$ 56	\$	\$	\$ 60	\$
Liabilities									
Foreign exchange forward contracts					1				
Total Liabilities	\$	\$	\$	\$	\$ 1	\$	\$	\$	\$

Available-for-sale securities are recorded at fair value with unrealized gains and losses reported, net of tax, in other comprehensive income, unless unrealized losses are determined to be other than temporary. As of November 2, 2013, the Company held \$38 million of available-for-sale securities, which was comprised of \$32 million of short-term investments and a \$6 million auction rate security, which is included in other assets.

Short-term investments represent corporate bonds with maturity dates within one year from the purchase date. These securities are valued using model-derived valuations in which all significant inputs or significant value-drivers are observable in active markets and therefore are classified as Level 2 instruments.

The fair value of the auction rate security is determined by using quoted prices for similar instruments in active markets and accordingly is classified as a Level 2 instrument.

The Company's derivative financial instruments are valued using market-based inputs to valuation models. These valuation models require a variety of inputs, including contractual terms, market prices, yield curves, and measures of volatility. There were no transfers into or out of Level 1, Level 2, or Level 3 assets and liabilities for any of the periods presented.

Additionally, in connection with the acquisition and purchase price allocation of Runners Point Group, the Company recognized its assets and liabilities at fair value. See Note 2, *Acquisition*, for further discussion and additional disclosures. All amounts are categorized as Level 3.

FOOT LOCKER, INC.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****7. Fair Value Measurements (continued)***Fair Value of Financial Instruments*

The carrying value and estimated fair value of long-term debt and obligations under capital leases were as follows:

(in millions)	November 2, 2013	October 27, 2012	February 2, 2013
Carrying value ⁽¹⁾	\$ 140	\$ 133	\$ 133
Fair value ⁽¹⁾	\$ 157	\$ 145	\$ 152

- ⁽¹⁾ In connection with the acquisition of Runners Point Group in the second quarter of 2013, the Company recognized capital lease obligations. These were existing agreements primarily related to the financing of certain store fixtures. As of November 2, 2013, \$8 million is included in the total above; \$3 million is classified as short-term and \$5 million is classified as long-term.

The fair value of long-term debt is determined by using model-derived valuations in which all significant inputs or significant value-drivers are observable in active markets and therefore is classified as Level 2.

The carrying values of cash and cash equivalents, short-term investments, and other current receivables and payables approximate their fair value.

8. Earnings Per Share

The Company accounts for and discloses net earnings per share using the treasury stock method. The Company's basic earnings per share is computed by dividing the Company's reported net income for the period by the weighted-average number of common shares outstanding at the end of the period. The Company's restricted stock awards, which contain non-forfeitable rights to dividends, are considered participating securities and are included in the calculation of basic earnings per share. Diluted earnings per share reflects the weighted-average number of common shares outstanding during the period used in the basic earnings per share computation plus dilutive common stock equivalents.

The Company's basic and diluted weighted-average number of common shares outstanding was as follows:

(in millions)	Thirteen weeks ended		Thirty-nine weeks ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Weighted-average common shares outstanding	147.7	151.0	149.2	151.4
Effect of Dilution:				
Stock options and awards	1.8	2.9	2.0	2.6
Weighted-average common shares assuming dilution	149.5	153.9	151.2	154.0

Options to purchase 1.1 million and 0.9 million shares of common stock were not included in the computation for the thirteen weeks ended November 2, 2013 and October 27, 2012, respectively. Options to purchase 0.9 million and 0.7 million shares of common stock were not included in the computation for the thirty-nine weeks ended

November 2, 2013 and October 27, 2012, respectively. These options were not included primarily because the exercise prices of the options were greater than the average market price of the common shares and, therefore, the effect would have been antidilutive. As of November 2, 2013, contingently issuable shares of 0.4 million have not been included as the vesting conditions have not been satisfied.

FOOT LOCKER, INC.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****9. Pension and Postretirement Plans**

The Company has defined benefit pension plans covering certain 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, which is recognized as part of SG&A expense:

(in millions)	Pension Benefits				Postretirement Benefits			
	Thirteen weeks ended		Thirty-nine weeks ended		Thirteen weeks ended		Thirty-nine weeks ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Service cost	\$ 4	\$ 3	\$ 11	\$ 10	\$	\$	\$	\$
Interest cost	6	7	19	21				
Expected return on plan assets	(10)	(10)	(30)	(30)				
Amortization of net loss (gain)	4	4	12	12	(1)	(1)	(2)	(3)
Net benefit expense (income)	\$ 4	\$ 4	\$ 12	\$ 13	\$ (1)	\$ (1)	\$ (2)	\$ (3)

During the second quarter of 2013, the Company made a \$2 million contribution to the Canadian qualified plan. No pension contributions to the U.S. qualified plan were made during the thirty-nine weeks ended November 2, 2013 and October 27, 2012. The Company continually evaluates the amount and timing of any future contributions. Additional contributions will depend on the plan asset performance and other factors.

10. Share-Based Compensation

Total compensation expense related to the Company's share-based compensation plans was \$6 million for the thirteen weeks ended November 2, 2013, \$5 million for the thirteen weeks ended October 27, 2012, and was \$19 million and \$15 million for the thirty-nine weeks ended November 2, 2013 and October 27, 2012, respectively. The associated tax benefits recognized for the thirteen weeks ended November 2, 2013 and October 27, 2012 was \$2 million for both periods. The associated tax benefit recognized was \$6 million for the thirty-nine weeks ended November 2, 2013 and \$5 million for the thirty-nine weeks ended October 27, 2012.

Tax deductions in excess of the cumulative compensation cost recognized for share-based compensation arrangements were \$8 million and \$9 million for the thirty-nine weeks ended November 2, 2013 and October 27, 2012, respectively, and are classified as a financing activity within the Condensed Consolidated Statements of Cash Flows.

The Company uses a Black-Scholes option-pricing model to estimate the fair value of share-based awards. The Black-Scholes option-pricing model incorporates various and highly subjective assumptions, including expected term and expected volatility.

FOOT LOCKER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10. Share-Based Compensation- (continued)

The following table shows the Company's assumptions used to compute the share-based compensation expense:

	Stock Option Plans				Stock Purchase Plan			
	Thirty-nine weeks ended		October 27,		Thirty-nine weeks ended		October 27,	
	November 2,		October 27,		November 2,		October 27,	
	2013		2012		2013		2012	
Weighted-average risk free rate of interest	1.02	%	1.50	%	0.17	%	0.22	%
Expected volatility	42	%	43	%	40	%	38	%
Weighted-average expected award life	6.0	years	5.5	years	1.0	year	1.0	year
Dividend yield	2.3	%	2.3	%	2.3	%	2.5	%
Weighted-average fair value	\$ 10.98		\$ 10.12		\$ 5.80		\$ 5.91	

The information in the following table covers options granted under the Company's stock option plans for the thirty-nine weeks ended November 2, 2013:

(in thousands, except price per share and weighted-average term)	Shares	Weighted-Average Term	Weighted-Average Exercise Price
Options outstanding at the beginning of the year	5,907		\$ 19.93
Granted	1,154		34.25
Exercised	(964)		19.12
Expired or cancelled	(59)		29.56
Options outstanding at November 2, 2013	6,038	6.59	\$ 22.70
Options exercisable at November 2, 2013	3,857	5.40	\$ 18.51
Options available for future grant at November 2, 2013	3,336		

	Thirteen weeks ended		Thirty-nine weeks ended	
	November 2,	October 27,	November 2,	October 27,
Intrinsic value of stock options (in millions)	2013	2012	2013	2012
Exercised	\$ 2	\$ 9	\$ 15	\$ 24
Outstanding			\$ 74	\$ 85
Outstanding and exercisable			\$ 64	\$ 61

The cash received from option exercises for the thirteen and thirty-nine weeks ended November 2, 2013 was \$4 million and \$19 million, respectively. The cash received from option exercises for the thirteen and thirty-nine weeks ended October 27, 2012 was \$15 million and \$35 million, respectively. The total tax benefit realized from option exercises was \$1 million and \$5 million for the thirteen and thirty-nine weeks ended November 2, 2013, respectively, and was \$3 million and \$8 million for the corresponding prior-year periods.

FOOT LOCKER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10. Share-Based Compensation- (continued)

The following table summarizes information about stock options outstanding and exercisable at November 2, 2013:

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price	
(in thousands, except price per share and contractual life)						
\$ 9.85 \$ 15.10	1,756	5.86	\$ 12.60	1,756	\$ 12.60	
\$ 15.74 \$ 23.42	1,603	6.36	\$ 19.71	1,156	\$ 20.04	
\$ 23.63 \$ 30.92	1,540	5.61	\$ 28.77	937	\$ 27.55	
\$ 31.79 \$ 36.59	1,139	9.36	\$ 34.26	8	\$ 34.17	
\$ 9.85 \$ 36.59	6,038	6.59	\$ 22.70	3,857	\$ 18.51	

Changes in the Company's nonvested options for the thirty-nine weeks ended November 2, 2013 are summarized as follows:

(in thousands, except price per share)	Number of Shares	Weighted-Average Grant Date Fair Value per Share
Nonvested at the beginning of the year	2,314	\$ 23.18
Granted	1,154	34.25
Vested	(1,228)	20.97
Expired or cancelled	(59)	29.56
Nonvested at November 2, 2013	2,181	\$ 30.11

Compensation expense related to the Company's stock option and stock purchase plans was \$3 million and \$9 million for the thirteen and thirty-nine weeks ended November 2, 2013, respectively, and was \$2 million and \$7 million for the thirteen and thirty-nine weeks ended October 27, 2012, respectively. As of November 2, 2013, there was \$11 million of total unrecognized compensation cost related to nonvested stock options, which is expected to be recognized over a weighted-average period of 1.10 years.

Restricted Stock and Units

Restricted shares of the Company's common stock and restricted stock units may be awarded to certain officers and key employees of the Company. The Company also issues restricted stock units to its non-employee directors. Each restricted stock unit represents the right to receive one share of the Company's common stock, provided that the vesting conditions are satisfied. As of November 2, 2013, 997,542 restricted stock units were outstanding. Compensation expense is recognized using the fair market value at the date of grant and is amortized over the vesting period, provided the recipient continues to be employed by the Company.

Generally, awards fully vest after the passage of time, typically three years. However, restricted stock unit grants made in connection with the Company's long-term incentive program vest after the attainment of certain performance

metrics and the passage of time. Restricted stock is considered outstanding at the time of grant and the holders have voting rights. Dividends are paid to holders of restricted stock that vests with the passage of time; for any performance-based restricted stock granted after May 19, 2010, dividends will be accumulated and paid after the performance criteria are met.

FOOT LOCKER, INC.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****10. Share-Based Compensation- (continued)**

Restricted share and unit activity for the thirty-nine weeks ended November 2, 2013 and October 27, 2012 is summarized as follows:

(in thousands)	Number of Shares and Units	
	November 2, 2013	October 27, 2012
Outstanding at beginning of period	1,564	2,068
Granted	440	264
Vested	(649)	(482)
Cancelled or forfeited	(15)	
Outstanding at end of period	1,340	1,850
Aggregate value (in millions)	\$ 36	\$ 33
Weighted-average remaining contractual life	1.09 years	0.95 years

The weighted-average grant-date fair value per share was \$34.59 and \$30.75 for the thirty-nine weeks ended November 2, 2013 and October 27, 2012, respectively. The total value of awards for which restrictions lapsed during the thirty-nine weeks ended November 2, 2013 and October 27, 2012 was \$9 million and \$5 million, respectively. As of November 2, 2013, there was \$13 million of total unrecognized compensation cost related to nonvested restricted awards. The Company recorded compensation expense related to restricted stock awards, net of forfeitures, of \$3 million for both the thirteen weeks ended November 2, 2013 and October 27, 2012, and \$10 million and \$8 million for the thirty-nine weeks ended November 2, 2013 and October 27, 2012, respectively.

Item 2. 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, with formats that include Foot Locker, Lady Foot Locker, Kids Foot Locker, Champs Sports, Footaction and SIX:02, as well as the retail stores of Runners Point Group, including Runners Point, Sidestep, and Run², which was acquired during the second quarter of 2013. The Direct-to-Customers segment is multi-branded and multi-channelled. This segment sells, through its affiliates, directly to customers through its Internet websites, mobile devices, and catalogs. Eastbay, one of the affiliates, is among the largest direct marketers in the United States. The Direct-to-Customers segment operates the websites for eastbay.com, final-score.com, eastbayteamservices.com, ccs.com, as well as websites aligned with the brand names of its store banners (footlocker.com, ladyfootlocker.com, kidsfootlocker.com, champssports.com, footaction.com, and six02.com). Additionally, this segment includes Tredex, the direct-to-customer subsidiary of Runners Point Group, which operates the websites for runnerspoint.com, sidestep.com, and sp24.com.

STORE COUNT

At November 2, 2013, the Company operated 3,510 stores as compared with 3,335 and 3,367 stores at February 2, 2013 and October 27, 2012, respectively. During the thirty-nine weeks ended November 2, 2013, the Company opened 77 stores, acquired 194 stores, remodeled or relocated 271 stores and closed 96 stores. Store count as of November 2, 2013 includes 195 Runners Point Group stores.

A total of 72 franchised stores were operating at November 2, 2013, as compared with 42 and 40 stores at February 2, 2013 and October 27, 2012, respectively. Included in the most recent number of franchised stores are 27 franchised Runners Point Group stores operating in Germany and Switzerland. Royalty income from the franchised stores was not significant for any of the periods presented. These stores are not included in the Company's operating store count above.

SALES AND OPERATING RESULTS

All references to comparable-store sales for a given period relate to sales of stores that are open at the period-end and have been open for more than one year. The computation of comparable-store sales also includes the sales of the Direct-to-Customers segment. Stores opened or closed during the period are not included in the comparable-store base; however, stores closed temporarily for relocation or remodeling are included. Computations exclude the effects of foreign currency fluctuations.

Sales from acquired businesses that include inventory are included in the computation of comparable-store sales after 15 months of operations. Accordingly, sales of Runners Point Group have been excluded from the computation of comparable-store sales.

The following table summarizes results by segment:

	Thirteen weeks ended		Thirty-nine weeks ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Sales (in millions)				
Athletic Stores	\$ 1,444	\$ 1,375	\$ 4,228	\$ 4,060
Direct-to-Customers	178	149	486	409
Total sales	\$ 1,622	\$ 1,524	\$ 4,714	\$ 4,469
Operating Results (in millions)	Thirteen weeks ended		Thirty-nine weeks ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Athletic Stores ⁽¹⁾	\$ 159	\$ 166	\$ 486	\$ 480
Direct-to-Customers	20	18	53	47
Division profit	179	184	539	527
Less: Corporate expense, net ⁽²⁾	17	28	56	76
Operating profit	162	156	483	451
Other income ⁽³⁾			3	1
Interest expense, net	2	1	4	3
Income before income taxes	\$ 160	\$ 155	\$ 482	\$ 449

(1) Included in the Athletic Stores segment for the thirty-nine weeks ended November 2, 2013 is a \$2 million charge recorded in connection with the closure of all CCS stores.

Corporate expense for the thirteen and thirty-nine weeks ended November 2, 2013 reflects the reallocation of expense between corporate and the operating divisions. Based upon an internal study of corporate expense, the allocation of such expenses to the operating divisions was increased thereby reducing corporate expense. Corporate expense was reduced by \$7 million and \$20 million for the thirteen and thirty-nine weeks ended November 2, 2013, respectively.

(3) Other income includes non-operating items, such as lease termination gains, royalty income, and the changes in fair value, premiums paid and realized gains associated with foreign currency option contracts.

Sales increased by \$98 million, or 6.4 percent, to \$1,622 million for the thirteen weeks ended November 2, 2013 from \$1,524 million for the thirteen weeks ended October 27, 2012. For the thirty-nine weeks ended November 2, 2013, sales of \$4,714 million increased 5.5 percent from sales of \$4,469 million for the thirty-nine week period ended October 27, 2012.

Excluding the effects of foreign currency fluctuations and sales of Runners Point Group, total sales for the thirteen weeks and thirty-nine weeks periods increased 1.3 percent and 3.2 percent, respectively, as compared with the

corresponding prior-year periods. Comparable-store sales increased by 4.1 percent and 3.7 percent for the thirteen weeks and thirty-nine weeks ended November 2, 2013, respectively.

Gross margin, as a percentage of sales, remained unchanged at 33.1 percent and 32.9 percent for the thirteen and thirty-nine weeks ended November 2, 2013, as compared with the corresponding prior-year periods. As a percentage of sales, the cost of merchandise for the thirteen and thirty-nine weeks ended November 2, 2013 increased by 10 basis points as compared with the prior year periods, primarily reflecting a decrease in the initial markup rate. This increase was offset by an improvement of 10 basis points from leveraging occupancy and buying costs.

Segment Analysis

Athletic Stores

Athletic Stores sales increased by 5.0 percent to \$1,444 million and 4.1 percent to \$4,228 million for the thirteen and thirty-nine weeks ended November 2, 2013, respectively, as compared with the corresponding prior-year periods. Athletic Stores sales include \$64 million and \$84 million for the thirteen and thirty-nine week periods ended November 2, 2013, respectively, related to the Runners Point Group stores. Excluding the effects of foreign currency fluctuations and sales of Runners Point Group stores, sales from the Athletic Stores segment decreased 0.1 percent and increased 1.9 percent for the thirteen and thirty-nine weeks ended November 2, 2013, respectively, as compared with the corresponding prior-year periods.

Comparable-store sales increased by 2.9 percent and 2.5 percent for the thirteen and thirty-nine weeks ended November 2, 2013, respectively. These increases were primarily driven by Kids Foot Locker and Foot Locker U.S., which posted strong comparable-store gains. The children's footwear category was a key driver across multiple banners, as basketball styles performed very well. This was offset, in part, by comparable-store sales declines in Lady Foot Locker and Champs Sports, while Footaction was essentially flat. Lady Foot Locker continued to experience sales declines, as management continues to close underperforming stores and redefine the product offerings. Test locations, including SIX:02 stores, are performing better than the balance of the chain and continue to be evaluated. Various initiatives are being implemented, including the launch of the SIX:02 e-commerce website during the third quarter, in order to optimize performance before a roll-out strategy is determined. The Company is working to improve the performance of the remaining Lady Foot Locker stores and is testing additional merchandise and store layout changes in an effort to improve future performance. Champs Sports's comparable-store sales were negatively affected, in part, by the level of store remodel projects, which resulted in store closings for the period of time during remodeling. International sales were led by Foot Locker Europe, which experienced a mid-single digit comparable-store sales increase for both the thirteen weeks and thirty-nine weeks ended November 2, 2013. These increases were primarily related to sales of men's basketball and running styles.

Athletic Stores division profit for the thirteen weeks ended November 2, 2013 decreased to \$159 million, or 11.0 percent of sales, as compared with division profit of \$166 million, or 12.1 percent of sales, for the thirteen weeks ended October 27, 2012. For the thirty-nine weeks ended November 2, 2013 division profit increased to \$486 million, or 11.5 percent of sales, as compared with division profit of \$480 million, or 11.8 percent of sales, for the corresponding prior-year period. Athletic Stores division profit includes \$1 million and \$3 million for thirteen and thirty-nine week periods ended November 2, 2013, respectively, related to Runners Point Group stores.

The decrease in division profit for the thirteen weeks ended November 2, 2013 was mainly attributed to higher occupancy costs as a percentage of sales, reflecting the shift in sales resulting from the 53rd week in 2012. Accordingly, division profit for the thirty-nine weeks ended November 2, 2013, as a percentage of sales, was essentially flat with the corresponding prior-year period.

Direct-to-Customers

Direct-to-Customers sales increased by 19.5 percent and 18.8 percent for the thirteen and thirty-nine weeks ended November 2, 2013, respectively, as compared with the corresponding prior-year periods. Comparable sales increased 13.7 percent and 15.7 percent for the thirteen weeks and thirty-nine weeks ended November 2, 2013, respectively. Direct-to-Customers sales include \$8 million and \$10 million, respectively, related to the Tredex division of Runners Point Group during the same periods in 2013. Excluding sales from Tredex, increases were primarily the result of the continued strong sales performance of the Company's store-banner websites, which increased approximately 40.0 percent, coupled with sales growth in the Eastbay business. These increases were offset, in part, by a decline in CCS's sales, as that format continues to perform below expectations.

Direct-to-Customers division profit for the thirteen weeks ended November 2, 2013 increased to \$20 million, as compared to \$18 million for the corresponding prior-year period. Division profit for the thirty-nine weeks ended November 2, 2013 increased to \$53 million, as compared to \$47 million for the corresponding prior-year period. Division profit as a percentage of sales decreased to 11.2 percent and 10.9 percent for the thirteen and thirty-nine weeks ended November 2, 2013, respectively, as compared with 12.1 percent and 11.5 percent for the corresponding prior-year periods. The decrease in division profit as a percentage of sales for the thirteen and thirty-nine weeks ended November 2, 2013 is primarily driven by increased advertising and publicity expense, as Eastbay launched a new marketing campaign late in the second quarter of 2013 to increase the exposure of the brand, coupled with the continued underperformance of the CCS business. The effect of the Tredex acquisition was not significant to the Direct-to-Customers segment for any of the periods presented.

Corporate Expense

Corporate expense consists of unallocated selling, general and administrative expenses (“SG&A”), as well as depreciation and amortization related to the Company’s corporate headquarters, centrally managed departments, unallocated insurance and benefit programs, certain foreign exchange transaction gains and losses, and other items. Corporate expense for the thirteen weeks ended November 2, 2013 decreased by \$11 million to \$17 million from the corresponding prior-year period. For the thirty-nine weeks ended November 2, 2013 corporate expense decreased by \$20 million to \$56 million from the corresponding prior-year period. The decline is primarily a result of a reallocation of expense between corporate and the operating divisions. Based upon an internal study of corporate expense, the allocation of such expenses to the operating divisions was increased thereby reducing corporate expense. This decrease was partially offset by \$1 million and \$4 million for the thirteen and thirty-nine weeks ended November 2, 2013, respectively, of costs incurred related to the Company’s acquisition and integration of Runners Point Group.

Selling, General and Administrative

SG&A of \$340 million increased by \$21 million, or 6.6 percent, for the thirteen weeks ended November 2, 2013 as compared with the corresponding prior-year period. SG&A, as a percentage of sales, increased to 21.0 percent for the thirteen weeks ended November 2, 2013, as compared with 20.9 percent in the corresponding prior-year period.

For the thirty-nine weeks ended November 2, 2013, SG&A increased by \$38 million, or 4.1 percent, as compared with the corresponding prior-year period. SG&A, as a percentage of sales, decreased to 20.6 percent for the thirty-nine weeks ended November 2, 2013, as compared with 20.8 percent in the corresponding prior-year period.

Excluding the effects of foreign currency fluctuations, SG&A increased by \$18 million and \$34 million for the thirteen and thirty-nine weeks ended November 2, 2013, respectively, as compared with the corresponding prior-year periods.

Included in SG&A for the thirteen and thirty-nine weeks ended November 2, 2013, is \$1 million and \$4 million, respectively, of costs related to the Company’s acquisition and integration of Runners Point Group as noted above in the discussion of corporate expense. Additionally, Runners Point Group’s SG&A represented \$22 million and \$27 million for the thirteen and thirty-nine weeks ended November 2, 2013, respectively. Excluding the acquisition costs, integration costs, and Runners Point Group, SG&A as a percentage of sales, would have declined 40 and 50 basis points for the thirteen and thirty-nine weeks ended November 2, 2013, respectively, as compared with the corresponding prior-year periods. This improvement was driven by effective expense management, specifically managing store wages and marketing costs.

Depreciation and Amortization

Depreciation and amortization increased by \$5 million for the thirteen weeks ended November 2, 2013 to \$35 million, as compared with the corresponding prior-year period of \$30 million. For the thirty-nine weeks ended November 2, 2013, depreciation and amortization increased by \$9 million to \$97 million as compared with \$88 million for the thirty-nine weeks ended October 27, 2012. This increase reflects increased capital spending on store improvements and technology. In addition, this increase reflects the inclusion of depreciation and amortization relating to Runners Point Group of \$2 million for the thirteen and thirty-nine weeks ended November 2, 2013. The effects of foreign currency fluctuations were not significant.

Other Charges

Other charges consist of \$2 million of lease exit costs relating to the closure of all 22 CCS stores during the second quarter of 2013. As of November 2, 2013, 12 of these stores were converted to other store formats, 2 will be converted by the end of the year and 1 will be converted during the first quarter of 2014. The CCS store closures are not presented as part of discontinued operations as the operations and cash flows related to the majority of the closed stores are expected to continue through other store formats and the Company's websites.

Interest Expense

(in millions)	Thirteen weeks ended		Thirty-nine weeks ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Interest expense	\$ 3	\$ 3	\$ 8	\$ 8
Interest income	(1)	(2)	(4)	(5)
Interest expense, net	\$ 2	\$ 1	\$ 4	\$ 3

The increase in net interest expense for the thirteen and thirty-nine weeks ended November 2, 2013, as compared with the corresponding prior-year period, reflects income earned on lower cash and cash equivalents balances as well as a decrease in the corresponding interest rate.

Income Taxes

The Company recorded income tax provisions of \$56 million and \$174 million, which represent effective tax rates of 35.0 and 36.1 percent for the thirteen and thirty-nine weeks ended November 2, 2013, respectively. For the thirteen and thirty-nine weeks ended October 27, 2012, the Company recorded income tax provisions of \$49 million and \$156 million, which represented effective tax rates of 31.7 and 34.8 percent, respectively. The Company's interim provision for income taxes is measured using an annual effective tax rate, adjusted for discrete items that occur within the periods presented.

The Company regularly assesses the adequacy of its provisions for income tax contingencies in accordance with the applicable authoritative guidance on accounting for income taxes. As a result, the Company may adjust the reserves for unrecognized tax benefits considering new facts and developments, such as changes to interpretations of relevant tax law, assessments from taxing authorities, settlements with taxing authorities, and lapses of statutes of limitation. Included in the effective tax rate for the thirteen weeks ended November 2, 2013 are tax reserve releases of \$3 million due to foreign tax audit settlements. The effective tax rate for the thirteen weeks ended October 27, 2012 included a tax reserve release of \$9 million due to a foreign tax audit settlement. The thirty-nine weeks ended November 2, 2013 included \$5 million of reserve releases due to settlements of federal, state, and foreign tax audits, offset by state audit expense of \$1 million, as compared with reserve releases of \$12 million recognized in the corresponding prior-year period.

For the thirty-nine weeks ended November 2, 2013, in connection with the purchase of Runners Point Group, the Company recorded a discrete item of \$1 million representing the tax expense of acquisition costs for which a deduction is not allowable. The effective tax rate for the thirty-nine weeks ended October 27, 2012 included a tax benefit related to a Canadian provincial tax rate change that resulted in a \$1 million increase in the value of the Company's net deferred tax assets.

Excluding the reserve activity and other discrete items, the effective tax rate for the thirteen and thirty-nine weeks ended November 2, 2013 decreased as compared with the corresponding prior-year period, due primarily to the effect of certain recently implemented tax planning initiatives.

During the third quarter of 2013 the Internal Revenue Service issued the final regulations regarding the deduction and capitalization of expenditures related to tangible property. These final regulations apply to taxable years beginning on or after January 1, 2014. Management does not believe such regulations will have a material effect on the Company's consolidated financial statements.

The Company currently expects the fourth quarter tax rate to approximate 37 percent and its full year tax rate to be in the range of 36 to 37 percent, excluding the effect of any additional nonrecurring items that may occur. The actual tax rates will primarily depend on the level and mix of income earned in the United States as compared with its international operations.

Net Income

For the thirteen weeks ended November 2, 2013, net income decreased by \$2 million, or 1.9 percent, as compared with the corresponding prior-year period. For the thirty-nine weeks ended November 2, 2013, net income increased by \$15 million, or 5.1 percent, as compared with the corresponding prior-year period.

Reconciliation of Non-GAAP Measures

The Company provides non-GAAP information to assist investors with the comparison of the Company's results period over period. The following represents the reconciliation of the non-GAAP measures:

(in millions)	Thirteen weeks ended		Thirty-nine weeks ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Net income, as reported	\$ 104	\$ 106	\$ 308	\$ 293
After-tax adjustments to arrive at non-GAAP:				
Runners Point Group acquisition and integration costs	1		4	
CCS store closure costs			1	
Canadian tax rate change				(1)
Foreign tax audit settlements	(3)	(9)	(3)	(9)
Net income, non-GAAP	\$ 102	\$ 97	\$ 310	\$ 283
Diluted EPS, as reported	\$ 0.70	\$ 0.69	\$ 2.04	\$ 1.90
Adjustments to arrive at non-GAAP:				
Runners Point Group acquisition and integration costs costs			0.02	
CCS store closure costs			0.01	
Canadian tax rate change				(0.01)
Foreign tax audit settlements	(0.02)	(0.06)	(0.02)	(0.06)

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Diluted EPS, non-GAAP	\$ 0.68	\$ 0.63	\$ 2.05	\$ 1.83
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The Company estimates the tax effect of the non-GAAP adjustments by applying its effective tax rate to each of the respective items.

In 2009, the Company excluded from its non-GAAP results the effect of a Canadian provincial tax rate change. During the second quarter of 2012, the Company recorded a benefit of \$1 million, or \$0.01 per diluted share, to reflect the repeal of the last two stages of certain Canadian provincial tax rate changes. This benefit was excluded from the non-GAAP results, consistent with the prior year's presentation.

During the thirteen weeks ended November 2, 2013 and October 27, 2012, the Company recorded benefits of \$3 million or \$0.02 per diluted share and \$9 million, or \$0.06 per diluted share, respectively, to reflect the settlement of foreign tax audits, which resulted in a reduction in tax reserves established in prior periods.

The non-GAAP financial measures are provided in addition to, and not as an alternative to, the Company's reported results prepared in accordance with GAAP.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary source of liquidity has been cash flow from operations, while the principal uses of cash have been to: fund inventory and other working capital requirements; finance capital expenditures related to store openings, store remodelings, Internet and mobile sites, information systems, and other support facilities; make retirement plan contributions, quarterly dividend payments, and interest payments; and fund other cash requirements to support the development of its short-term and long-term operating strategies. The Company generally finances real estate with operating leases. Management believes its cash, cash equivalents, future cash flow from operations, and the Company's current revolving credit facility will be adequate to fund these requirements.

The Company may also from time to time repurchase its common stock or seek to retire or purchase outstanding debt through open market purchases, privately negotiated transactions, or otherwise. Such repurchases, if any, will depend on prevailing market conditions, liquidity requirements, contractual restrictions, and other factors. The amounts involved may be material.

Any material adverse change in customer demand, fashion trends, competitive market forces, or customer acceptance of the Company's merchandise mix and retail locations, uncertainties related to the effect of competitive products and pricing, the Company's reliance on a few key vendors for a significant portion of its merchandise purchases and risks associated with global product sourcing, economic conditions worldwide, the effect of currency fluctuations, as well as other factors listed under the heading "Disclosure Regarding Forward-Looking Statements," could affect the ability of the Company to continue to fund its needs from business operations.

Operating Activities

Net cash provided by operating activities was \$327 million and \$259 million for the thirty-nine weeks ended November 2, 2013 and October 27, 2012, respectively. These amounts reflect net income adjusted for non-cash items and seasonal working capital changes. The increase in operating cash flow is primarily the result of strong sales during the first three quarters, and improved working capital management. Additionally, cash paid for income taxes declined \$59 million to \$123 million for the thirty-nine weeks ended November 2, 2013.

Investing Activities

Net cash used in investing activities was \$221 million and \$170 million for the thirty-nine weeks ended November 2, 2013 and October 27, 2012. During the second quarter of 2013, the Company completed its purchase of Runners Point Group for \$81 million, net of cash acquired. In addition, the Company spent \$157 million on capital expenditures as compared with \$120 million in the corresponding prior-year period, primarily reflecting the Company's initiative to update its existing stores. The Company's current full-year forecast for capital expenditures is \$206 million, of which \$165 million relates to the updates of existing stores and new store openings and \$41 million for the development of

information systems and infrastructure. Current year investing activities also reflects net sales and maturities of short-term investments of \$15 million, as compared with net purchases of \$50 million of short-term investments in the corresponding prior-year period.

Financing Activities

Net cash used in financing activities was \$226 million and \$129 million for the thirty-nine weeks ended November 2, 2013 and October 27, 2012, respectively. The Company purchased 4,849,251 shares of its common stock at a cost of \$167 million during the first nine months of 2013. This compares to 2,961,161 shares repurchased for \$94 million in the corresponding prior-year period. The Company declared and paid dividends during the first three quarters of 2013 and 2012 of \$89 million and \$82 million, respectively. This represents a quarterly rate of \$0.20 and \$0.18 per share for 2013 and 2012, respectively. The Company received proceeds from the issuance of common stock in connection with employee stock programs of \$22 million and \$40 million for the thirty-nine weeks ended November 2, 2013 and October 27, 2012, respectively. In connection with stock option exercises and share-based compensation programs, the Company recorded excess tax benefits of \$8 million as a financing activity during the thirty-nine week period ended November 2, 2013, as compared with \$9 million in the corresponding prior-year period. During the prior-year period, the Company repurchased and retired \$2 million of its 8.5 percent debentures payable in 2022.

Recent Accounting Pronouncements

During the first quarter of 2013, the Company adopted Accounting Standards Update 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income* (“ASU 2013-02”). ASU 2013-02 amended existing guidance by requiring additional disclosure either on the face of the income statement or in the notes to the financial statements of significant amounts reclassified out of accumulated other comprehensive income. The provisions of this new guidance were effective prospectively as of the beginning of 2013. Accordingly, enhanced footnote disclosure is included in *Note 5*. The adoption of ASU 2013-02 had no effect on our results of operations or financial position.

We performed our annual goodwill impairment assessment during the first quarter of 2013, using a qualitative approach as permitted under Accounting Standards Update No. 2011-08, *Testing Goodwill for Impairment*. In performing the assessment, we identified and considered the significance of relevant key factors, events, and circumstances that affected the fair value and/or carrying amounts of our reporting units. These factors included external factors such as macroeconomic, industry and market conditions, as well as entity-specific factors, such as our actual and planned financial performance. Based on the results of the impairment assessment performed, we concluded that it is more likely than not that the fair values of our reporting units substantially exceeded their respective carrying values and there are no reporting units at risk of impairment.

Other recently issued accounting pronouncements did not, or are not believed by management to, have a material effect on the Company’s present or future consolidated financial statements

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

There have been no significant changes to the Company’s critical accounting policies and estimates from the information provided in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” included in the Annual Report on Form 10-K for the fiscal year ended February 2, 2013 except for the addition of the critical accounting policy set forth below.

Business Combinations

The Company accounts for acquisitions of other businesses by recording the net assets of the acquired businesses at fair value and making estimates and assumptions to determine the fair value of these acquired assets and liabilities. The Company allocated the purchase price of the acquired business based, in part, upon internal estimates of cash flows and considering the report of a third-party valuation expert retained to assist the Company. Changes to the assumptions used to estimate the fair value could affect the recorded amounts of the assets acquired and the resultant

goodwill.

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DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of the federal securities laws. Other than statements of historical facts, all statements which address activities, events, or developments that the Company anticipates will or may occur in the future, including, but not limited to, such things as future capital expenditures, expansion, strategic plans, financial objectives, dividend payments, stock repurchases, growth of the Company's business and operations, including future cash flows, revenues, and earnings, and other such matters, are forward-looking statements. These forward-looking statements are based on many assumptions and factors which are detailed in the Company's filings with the Securities and Exchange Commission, including the effects of currency fluctuations, customer demand, fashion trends, competitive market forces, uncertainties related to the effect of competitive products and pricing, customer acceptance of the Company's merchandise mix and retail locations, the Company's reliance on a few key vendors for a majority of its merchandise purchases (including a significant portion from one key vendor), pandemics and similar major health concerns, unseasonable weather, further deterioration of global financial markets, economic conditions worldwide, further deterioration of business and economic conditions, any changes in business, political and economic conditions due to the threat of future terrorist activities in the United States or in other parts of the world and related U.S. military action overseas, the ability of the Company to execute its business and strategic plans effectively with regard to each of its business units, and risks associated with global product sourcing, including political instability, changes in import regulations, and disruptions to transportation services and distribution.

For additional discussion on risks and uncertainties that may affect forward-looking statements, see "Risk Factors" disclosed in the 2012 Annual Report on Form 10-K, as well as Part II, Item 1A "Risk Factors" below. Any changes in such assumptions or factors could produce significantly different results. The Company undertakes no obligation to update forward-looking statements, whether as a result of new information, future events, or otherwise.

Item 4. Controls and Procedures

The Company's management performed an evaluation under the supervision and with the participation of the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), and completed an evaluation as of November 2, 2013 of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based on that evaluation, the Company's CEO and CFO concluded that the Company's disclosure controls and procedures were effective to ensure that information relating to the Company that is required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC rules and forms, and is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

During the quarter ended November 2, 2013, there were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) of the Exchange Act) that materially affected or are reasonably likely to affect the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Legal proceedings pending against the Company or its consolidated subsidiaries consist of ordinary, routine litigation, including administrative proceedings, incidental to the business of the Company or businesses that have been sold or disposed of by the Company in past years. These legal proceedings include commercial, intellectual property, customer, environmental, and employment-related claims.

Certain of the Company's subsidiaries are defendants in a number of lawsuits filed in state and federal courts containing various class action allegations under federal or state wage and hour laws, including allegations concerning unpaid overtime, meal and rest breaks, and uniforms.

The Company is a defendant in one such case in which plaintiff alleges that the Company permitted unpaid off-the-clock hours in violation of the Fair Labor Standards Act and state labor laws. The case, *Pereira v. Foot Locker*, was filed in the U.S. District Court for the Eastern District of Pennsylvania in 2007. In his complaint, in addition to unpaid wage and overtime allegations, plaintiff seeks compensatory and punitive damages, injunctive relief, and attorneys' fees and costs. In 2009, the Court conditionally certified a nationwide collective action. During the course of 2010, notices were sent to approximately 81,888 current and former employees of the Company offering them the opportunity to participate in the class action, and approximately 5,027 have opted in.

The Company is a defendant in additional purported wage and hour class actions that assert claims similar to those asserted in *Pereira* and seek similar remedies. With the exception of *Hill v. Foot Locker* filed in state court in Illinois, *Kissinger v. Foot Locker* filed in state court of California, *Ghattas v. Foot Locker* filed in state court of California, and *Cortes v. Foot Locker* filed in federal court of New York, all of these actions were consolidated by the United States Judicial Panel on Multidistrict Litigation with *Pereira* under the caption *In re Foot Locker, Inc. Fair Labor Standards Act and Wage and Hour Litigation*. The consolidated cases are in the discovery stages of proceedings. In *Hill v. Foot Locker*, in May 2011, the court granted plaintiffs' motion for certification of an opt-out class covering certain Illinois employees only. The Company's motion for leave to appeal was denied. The Company has had and may in the future have discussions with plaintiffs' counsel in an attempt to determine whether it will be possible to resolve the consolidated cases and *Hill*. Meanwhile, the Company is vigorously defending these class actions. In *Ghattas*, the court has given final approval for a settlement of the action. Due to the inherent uncertainties of such matters, and because fact and expert discovery have not been completed, the Company is currently unable to make an estimate of the range of loss.

The Company and the Company's U.S. retirement plan are defendants in a purported class action (*Osberg v. Foot Locker*, filed in the U.S. District Court for the Southern District of New York) in which the plaintiff alleges that, in connection with the 1996 conversion of the retirement plan to a defined benefit plan with a cash balance formula, the Company and the retirement plan failed to properly advise plan participants of the "wear-away" effect of the conversion. Plaintiff asserted claims for: (a) breach of fiduciary duty under the Employee Retirement Income Security Act of 1974 (ERISA); (b) violation of the statutory provisions governing the content of the Summary Plan Description; (c) violation of the notice provision of Section 204(h) of ERISA; and (d) violation of ERISA's age discrimination provisions. In September 2009, the court granted the Company's motion to dismiss the Section 204(h) claim and the age discrimination claim. In December 2012, the court granted the Company's motion for summary judgment on the remaining two claims, dismissing the action. Plaintiff has appealed to the U.S. Court of Appeals for the 2nd Circuit, which appeal is currently pending. Because of the inherent uncertainties of such matters and the current status of this case, the Company is currently unable to make an estimate of loss or range of loss for this case.

Management does not believe that the outcome of any such legal proceedings pending against the Company or its consolidated subsidiaries, including *In re Foot Locker, Inc. Fair Labor Standards Act and Wage and Hour Litigation*, *Hill*, *Cortes*, *Kissinger*, *Ghattas*, and *Osberg*, as described above, would have a material adverse effect on the Company's consolidated financial position, liquidity, or results of operations, taken as a whole.

Item 1A. Risk Factors

There were no material changes to the risk factors disclosed in the 2012 Annual Report on Form 10-K, except for the addition of the risk factor set forth below.

Risk associated with our recent acquisition.

During the second quarter of 2013, the Company acquired Runners Point Group, a specialty athletic store and online retailer based in Recklinghausen, Germany. The acquisition of Runners Point Group involves a number of risks, which could significantly and adversely affect our business, financial condition, and results of operations, including:

- failure of Runners Point Group to achieve the results that we expect;
- diversion of management's attention from operational matters;
- difficulties integrating the operations and personnel;
- potential difficulties associated with the retention of key personnel; and
- increased business concentration in Germany.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information with respect to shares of the Company's common stock that the Company repurchased during the thirteen weeks ended November 2, 2013.

Date Purchased	Total Number of Shares Purchased (1)	Average Price Paid per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Program (2)	Approximate Dollar Value of Shares that may yet be Purchased Under the Program (2)
August 4, 2013 through August 31, 2013	170,000	\$ 32.58	170,000	\$ 494,461,596
September 1, 2013 through October 5, 2013	1,728,743	\$ 33.07	1,728,743	\$ 437,299,251
October 6, 2013 through November 2, 2013	129,206	\$ 32.76	124,435	\$ 433,227,849
	2,027,949	\$ 33.01	2,023,178	

(1) These columns also reflect shares acquired in satisfaction of the tax withholding obligation of holders of restricted stock units which vested during the quarter. The calculation of the average price paid per share includes all fees, commissions, and other costs associated with the repurchase of such shares.

(2) On February 20, 2013, the Company's Board of Directors approved a new 3-year, \$600 million share repurchase program extending through January 2016.

Item 6. Exhibits(a) Exhibits

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

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: December 11, 2013

FOOT LOCKER, INC.
(Company)

/s/ Lauren B. Peters
LAUREN B. PETERS
Executive Vice President and Chief Financial Officer

FOOT LOCKER, INC.

**INDEX OF EXHIBITS REQUIRED BY ITEM 6(a) OF FORM 10-Q
AND FURNISHED IN ACCORDANCE WITH ITEM 601 OF REGULATION S-K**

Exhibit Item 601	Description
12	Computation of Ratio of Earnings to Fixed Charges.
15	Accountants' Acknowledgement.
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99	Report of Independent Registered Public Accounting Firm.
101	Interactive data files.