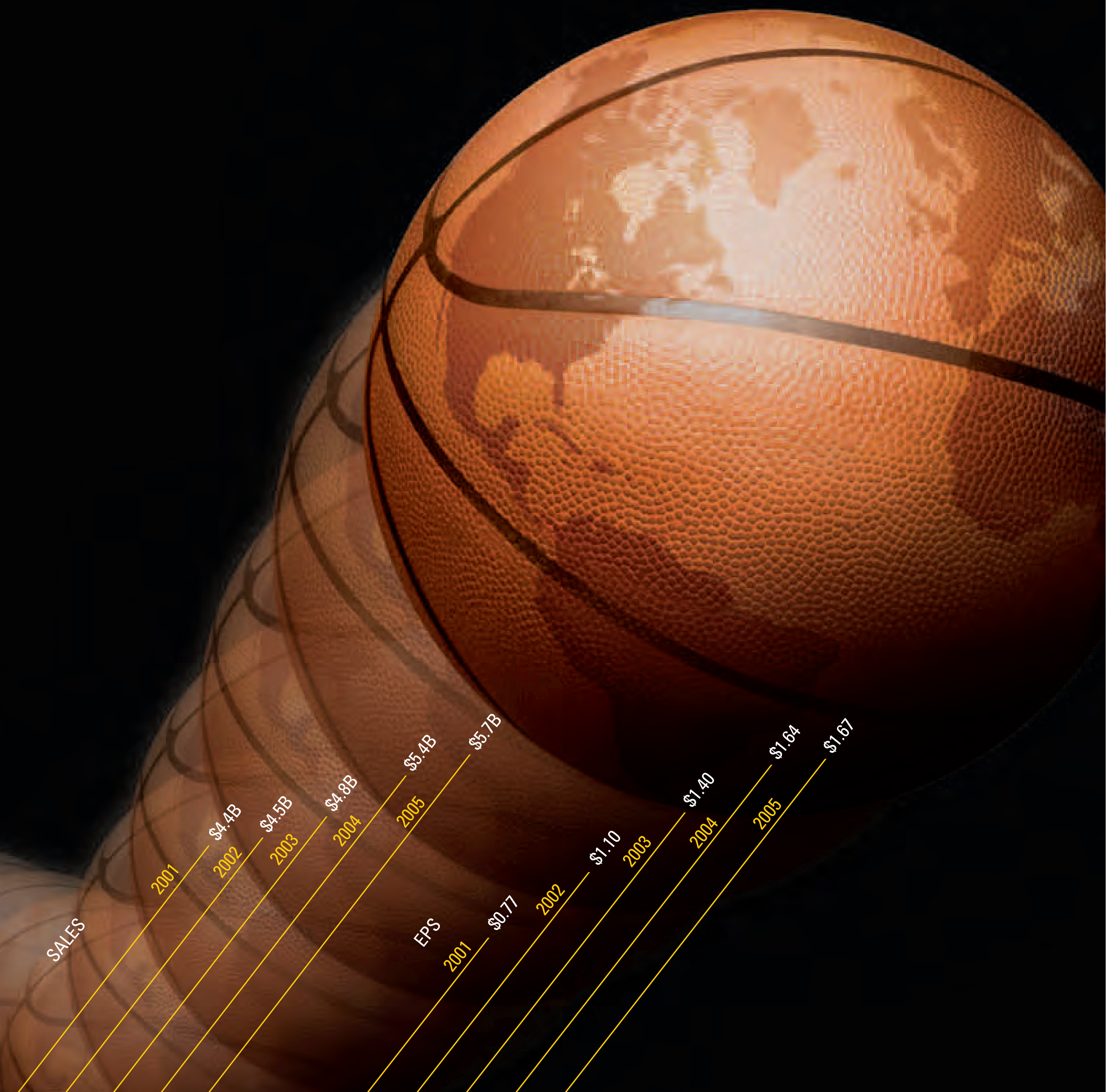
FOOT LOCKER, INC.

FOCUSING ON GLOBAL GROWTH

2005 Annual Report



Foot Locker, Inc.

About the Company

Foot Locker, Inc. (NYSE: FL) is the world's leading retailer of athletic footwear and apparel. Headquartered in New York City, it operates approximately 4,000 athletic retail stores in 20 countries in North America, Europe and Australia under the brand names Foot Locker, Footaction, Lady Foot Locker, Kids Foot Locker and Champs Sports.

Additionally, the Company's Footlocker.com/Eastbay business operates a rapidly growing direct-to-customers business offering athletic footwear, apparel and equipment through its Internet and catalog channels.

Financial Highlights

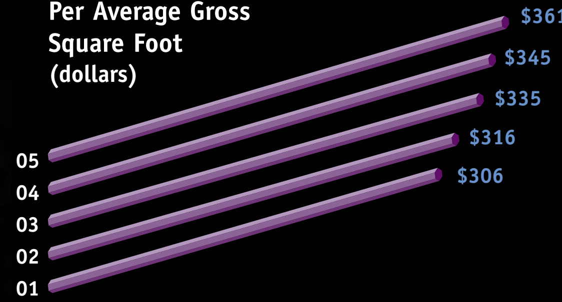
(Millions, except per share amounts)

	2001	2002	2003	2004	**2005**
Sales	$ 4,379	$ 4,509	$ 4,779	$ 5,355	**$5,653**
Total operating profit	$ 197	$ 269	$ 342	$ 389	**$ 409**
Income from continuing operations	$ 111	$ 162	$ 209	$ 255	**$ 263**
Diluted EPS from continuing operations	$ 0.77	$ 1.10	$ 1.40	$ 1.64	**$ 1.67**
Cash, cash equivalents and short-term investment position, net of debt	$ (184)	$ —	$ 113	$ 127	**$ 261**
Athletic stores sales per average gross square foot (dollars)	$ 306	$ 316	$ 335	$ 345	**$ 361**

Table of Contents

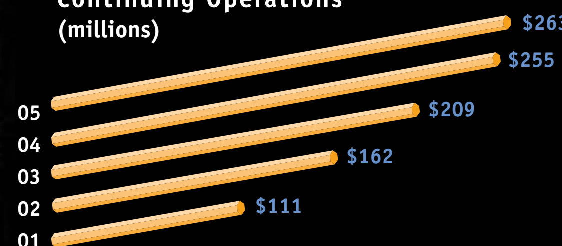
Cover image illustrates Sales and Diluted EPS from Continuing Operations.

Athletic Stores Sales Per Average Gross Square Foot
(dollars)

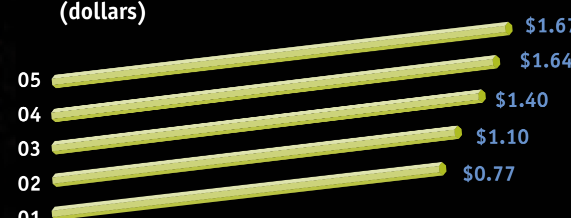


Operating Profit
(millions)

Income from Continuing Operations
(millions)



Diluted EPS from Continuing Operations
(dollars)



Shareholders' Letter

Overall, our business produced solid sales and pre-tax earnings increases in 2005 while also generating strong cash flow that we are actively redeploying to benefit our shareholders.

For Foot Locker, Inc., 2005 was a year of accomplishments, both in positioning our Company to generate greater value for shareholders, and in aggressively addressing new opportunities and challenges alike. For the most part we produced creditable results during the past year, but fell short of the earnings target we set for ourselves at the beginning of the year.

In brief, our performance in certain international markets, primarily in Europe, did not meet our expectations. We have since moved quickly to address several internal and external factors that contributed to profit declines in these markets. To continue our success as a global specialty retailer, we must anticipate worldwide consumer trends and meet or exceed the needs of our customers. Towards this end, we are working actively with our suppliers to better assure that we provide to our customers, wherever they reside, the most fashionable, highest quality products at compelling and competitive prices.

On a more positive note, we are pleased with the solid sales and profit gains posted by our combined North American retail store business and direct-to-customers operations. Our Champs Sports and recently-acquired Footaction businesses were our star performers for the year, while our Footlocker.com/ Eastbay direct-to-customers business posted our highest division profit margin rate.

Not to be overlooked in 2005 were the steps we continued to take to improve our financial footing: We further strengthened our balance sheet by reducing our financial liabilities, while also significantly increasing the amount of cash that we returned to our shareholders through dividends and a share repurchase program.

2005 Financial Scoreboard

Overall, our business produced solid sales and pre-tax earnings increases while also generating strong cash flow that we are actively redeploying to benefit our shareholders.

The following highlights our achievements in 2005:

- Total sales increased 5.6 percent to $5.7 billion
- Pre-tax profit increased 8.3 percent to $405 million
- Earnings per share from continuing operations increased to $1.67
- Cash position, net of debt, increased by $134 million

Looking beyond these highlights, 2005 was also a year in which we met a key targeted performance metric. We are pleased that we exceeded our $350 sales per average gross square foot objective -- a goal that we established earlier this decade. The improvement in this performance metric provides evidence that the strategies we are employing, designed to enhance the sales productivity of our store fleet, are working as intended. Going forward, we have raised the bar and currently believe that we can enhance the productivity of our stores even further and, over time, achieve sales of $400 per average gross square foot within the next several years.

We are also pleased with our continuing success in enhancing the Company's financial position and utilizing our operating cash flow of $355 million to deliver increased value for shareholders. Key investment decisions made during the year included:

- Investing $163 million in capital expenditures
- Contributing $26 million to our pension funds
- Repaying $35 million of long-term debt
- Paying $49 million of dividends to our shareholders
- Repurchasing $35 million of our common stock

At year end, the Company's cash and short-term investment position, net of long-term debt and capital leases, stood at $261 million, reflecting our strong financial position and balance sheet.

Store Summary	January 29, 2005	Opened	Closed	January 28, 2006	Remodeled/ Relocated	Gross Square Footage Average Size	Gross Square Footage 2005 Total (thousands)	2006 Targeted Openings
Foot Locker	1,428	45	75	1,398	124	4,000	5,626	50
Footaction	349	24	10	363	40	4,700	1,718	20
Lady Foot Locker	567	8	21	554	19	2,200	1,241	25
Kids Foot Locker	346	1	20	327	39	2,400	791	20
Foot Locker International	707	30	14	723	38	2,900	2,062	35
Champs Sports	570	11	25	556	56	5,500	3,045	25
Total	3,967	119	165	3,921	316	3,700	14,483	175

Positioned To Win

As we move forward, we have a number of growth priorities underway that we are confident will position our Company for continued market leadership, strong financial performance and delivery of greater value to our shareholders.

The Company's first growth priority is to fund capital projects designed to enhance our existing business. During 2005, the Company spent approximately 80 percent of its $163 million capital expenditures on store maintenance, remodels and relocations, as well as enhancements to our infrastructure and sales support systems. The remaining 20 percent of the Company's 2005 capital expenditure program was allocated to opening new retail stores. During the year we completed 600 real estate projects, opening 119 new stores, remodeling and relocating 316 stores, and closing 165 stores.

Acquiring compatible athletic footwear and apparel retail companies is another growth priority for our Company. During the prior year, we explored several potential acquisition opportunities that we believe could be a strategic fit with our Company. We plan to continue to pursue carefully acquisition opportunities, maintaining a patient posture to ensure that potential investments are accretive to our earnings per share and generate a rate of return well in excess of our cost of capital.

We continually seek new opportunities to grow our Company profitably, while prudently maintaining a conservative -- yet efficient -- capital structure designed to minimize our cost of capital. Reducing our financial liabilities and strengthening our balance sheet are important considerations as we strive to attain an investment-grade credit rating. With this priority in mind, during 2005 we repaid $35 million of long-term debt and contributed $26 million to our pension plans.

Our Board of Directors is also committed to enhancing shareholder value through both capital appreciation and dividends. Thus, in November 2005, the Board of Directors increased the cash dividend on Foot Locker, Inc.'s common stock by 20 percent, to an annualized amount of $0.36 per share, reflecting confidence in the ability of management to continue to increase the Company's profitability. During the second quarter of 2005, we began to implement a share repurchase program, with 1.6 million shares purchased for the full year at a cost of $35 million. Additionally, the Board of Directors authorized in February 2006 a new three-year $150 million share repurchase program that may be implemented based upon market prices and other factors.

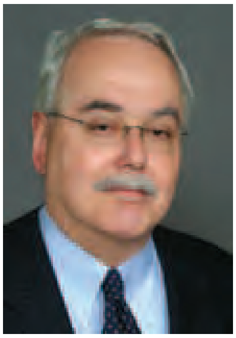
Game Plan -- Expanding Our Reach

Looking to the future, we believe we have many opportunities to accelerate our growth by expanding the reach of our business into both new and existing markets. We expect that these opportunities will include the continued implementation of the growth strategy that we have been successfully executing for several years, as well as the development of new initiatives that will allow us to reach a larger and more diverse customer base.

An integral part of this growth strategy is our real estate program, first embarked upon in 2001, and geared at opening 1,000 new stores over several years. In line with this strategy, we opened or acquired 961 new stores over the past five years, while also closing 622 underperforming stores. During this time, we also expanded our store base into six new countries, including Greece and Switzerland this past year.

As we look toward 2006, we have increased our capital expenditure plan to $190 million. This will enable us to accelerate our store openings to approximately 175 new stores and to expand our reach by testing new markets. We estimate that 80 percent of the new stores will be located in the United States and 20 percent in international markets. During 2006, we also plan to close approximately 110 underperforming

Looking to the future, we believe that we have many opportunities to accelerate our growth by expanding the reach of our business into both new and existing markets.



stores. Therefore, we expect our athletic store base to increase by 1-to-2 percent in 2006 and, at year end, we will be operating more stores in each of our formats compared to the beginning of the year.

Another strategy to expand our reach is through an arrangement that we recently negotiated with a well-established third party franchisee to open Foot Locker franchises in several countries in the Middle East, a region where we do not currently operate stores. We are working together with the franchisee towards a goal of opening six new franchised stores in 2006 and a total of 75 new stores in this region over the next four years.

Finally, we continue to seek ways to increase sales and profits by leveraging our Footlocker.com/Eastbay infrastructure. During 2006, we plan to expand our reach through our direct-to-customers channels by developing a new Internet website and catalog selling men's and women's leather dress shoes.

Home Court Advantages

Today, Foot Locker, Inc. maintains a leadership position in the worldwide specialty athletic footwear and apparel retail industry with almost 4,000 stores in 20 countries. We also operate a highly-profitable direct-to-customers business that sells athletic footwear, apparel and equipment through catalogs and the Internet -- channels that complement our retail stores. Our well-known brands, market share position and diversification provide many competitive advantages that benefit our Company today and provide an edge as we strive to grow our Company profitably and deliver greater value to our shareholders.

Building a winning culture that has as its core a passion for high performance is of paramount importance to our Company. Today, our associates are fully engaged in our business, focused on their key responsibilities and encouraged to develop new ideas to benefit our organization. It is through the hard work of our associates -- the Company's most important asset -- that we have successfully increased shareholder value over the years.

Of course, our focus on strong performance across all aspects of our business also extends to our commitment to good corporate citizenship. In particular, we are very proud of the manner in which our organization stepped up to the plate this year to raise funds for several worthy organizations, including the United Negro College Fund, the United Way and the American Cancer Society. Additionally, Foot Locker, Inc. donated more than 80,000 pairs of athletic shoes to Save the Children, primarily to provide aid to the victims of the tsunami disaster in Asia. Our associates worldwide also made generous contributions to assist their fellow associates and families who were adversely affected by hurricanes Katrina, Rita and Wilma.

We believe that our Company also has the distinct advantage of benefitting from the strategic direction and counsel of a Board of Directors comprising individuals with truly exceptional talents. Their guidance over the past several years has contributed significantly to our success.

Finally, we would like to thank our suppliers, landlords and other business partners who assist us in providing exceptional goods and services to our valued customers.

We are confident and optimistic regarding the future of Foot Locker, Inc. Several important growth opportunities have been identified that, when implemented, we believe will benefit both our near term and longer term financial results. Our organization is strong, our financial position is solid, our infrastructure is well equipped, and we look forward with great enthusiasm to our exciting future and bright prospects.

Sincerely,

Matthew D. Serra

Matthew D. Serra
Chairman of the Board, President
and Chief Executive Officer

Business Overview

Global diversification is a vital component of the Company's strategic positioning. This diversification is unique in the athletic Footwear and apparel retail industry and provides many distinct advantages. Foot Locker, Inc. has established a strong presence in several global markets within North America, Europe and Australia.

	Primary Customer	Merchandise Mix	# of Stores	Average Store Size
Foot Locker	12 to 20 Year Old	Men's, Women's and Children's Athletic Footwear Men's Athletic Apparel and Accessories	1,398	4,000 Gross Square Feet
Footaction USA	15 to 30 Year Old	Men's, Women's and Children's Athletic Footwear Men's Athletic Apparel and Accessories	363	4,700 Gross Square Feet
Lady Foot Locker	14 to 35 Year Old Female	Women's Athletic Footwear, Apparel and Accessories	554	2,200 Gross Square Feet
kids Foot Locker	5 to 11 Year Old	Children's Athletic Footwear, Apparel and Accessories	327	2,400 Gross Square Feet
Foot Locker International	12 to 20 Year Old	Men's, Women's and Children's Athletic Footwear Men's Athletic Apparel and Accessories	723	2,900 Gross Square Feet
Champs Sports Where Sport Lives	12 to 25 Year Old	Men's, Women's and Children's Athletic Footwear Men's Athletic Apparel and Accessories Athletic Equipment	556	5,500 Gross Square Feet
Footlocker.com Eastbay	12 to 35 Year Old	Men's, Women's and Children's Athletic Footwear, Apparel and Equipment		

Foot Locker

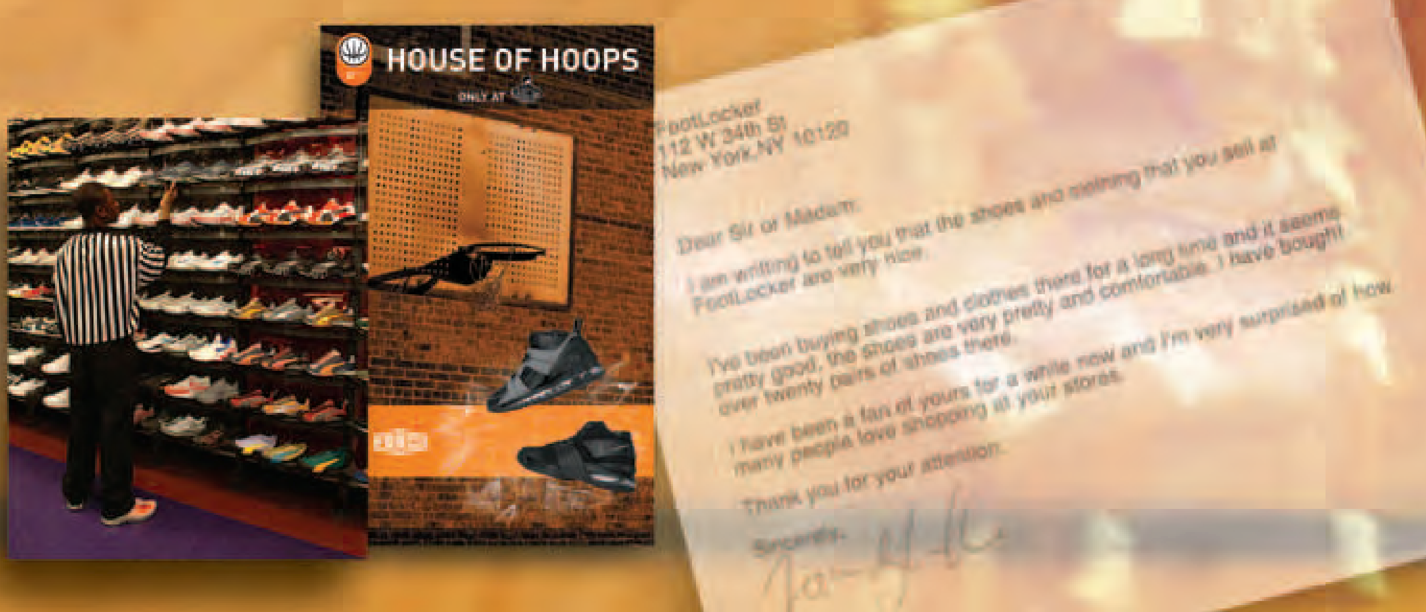
The Company's largest business, Foot Locker, which was first introduced by the Company in 1974, today is the world's largest athletic footwear and apparel retailer. At year-end, Foot Locker operated a total of 2,121 stores around the globe in 20 countries, with 1,398 stores located in the United States, 501 stores in Europe, 128 stores in Canada and 94 stores in the Asia/Pacific region. Its stores average 3,600 gross square feet and target a 12-to-20 year old male customer base that is influenced by competitive sports and urban trends.

In the North American market, Foot Locker is actively implementing several strategies with a goal of driving comparable-store sales growth and reducing its operating costs as a percentage of sales. These strategies include enhancing the portfolio of its store fleet by opening new stores in markets with high sales potential, closing stores that are losing money and updating the appearance of stores through a remodeling and relocation program. Of the North American Foot Locker stores 2005 financial results, the profit increase of Foot Locker Canada was most notable, with its division profit margin reaching double digits for the first time in its history.

For the past several years, Europe has represented the most exciting region in which the Company has pursued store growth. Foot Locker continued to implement successfully a store expansion strategy in Europe during 2005, opening 22 new stores in countries where the Company already operates, as well as testing two new markets -- Greece and Switzerland. The operating results for Foot Locker Europe in 2005 were disappointing, as a combination of weak economic factors, coupled with a more competitive marketplace, led to a contraction of its division profit margin rate, which was, however, still in the low double digit range.

The Company also sees an opportunity for store growth in the Asia/Pacific region. In the near-term, new store openings will be concentrated in the Australian and New Zealand markets, which are regions where the Company already operates profitably. Store growth into new markets in this region is expected in the future, once the Company is confident that a profitable business model has been developed.

Foot Locker is actively implementing several strategies with a goal of driving sales growth and reducing its operating costs as a percentage of sales.




NOKIA Theatre
CitySights NY
SHOW YOUR ROOTS.
Foot Locker
clean.
Foot Locker
Footlocker
112 W. 34th Street
New York, NY 10120
Dear Foot Locker:
January 19, 2006
Footlocker
Customer Service
112 W. 34th St.
New York, NY 10120
Dear Customer Service,
ING
CERTIFIED
VIP
IF I HAD IT MY WAY, I'D BE POINT GUARD FOR CHICAGO. I KNOW THEY'VE GOT A GUY DOING THE JOB RIGHT NOW, BUT I MIGHT BE ABLE TO TAKE HIM. I RAN 3'S AND HAVE A GREAT COURT VISION. I'VE ALREADY GOT HIS KICKS, MAYBE NOW I'LL TAKE HIS JOB. I WONDER IF HE GOT HIS PAIR AT FOOT LOCKER TOO?
Foot Locker
footlocker.com

In terms of number of stores, annual sales volume and, most importantly, profitability, Champs Sports is the Company's second largest division in North America. Champs Sports stores are primarily mall-based and offer for sale athletic footwear, apparel and equipment through a total of 556 specialty stores, of which 520 are located in the United States and 36 in Canada. The typical Champs Sports store averages 5,500 gross square feet, with merchandise that targets a suburban consumer who is 12 to 25 years old and is both performance and fashion-conscious.

Champs Sports had an outstanding year in 2005, generating a low double digit comparable-store sales increase and a significant profit improvement over the prior year. In fact, the Champs Sports division sales and profits reached record levels last year, with a division profit margin rate in the high single digit range. Additional quantities of high priced marquee athletic footwear and more fashion-right assortment of private-label and branded apparel offerings contributed to the strong sales growth.

The Company is encouraged that Champs Sports store locations and product offerings are well positioned in the athletic marketplace and expects the division to post solid increases in sales and profit in 2006. Given the renewed strength of this division, additional store growth is planned, primarily in shopping malls located in suburban markets in the United States.

The Company is encouraged that Champs Sports store locations and product offerings are well positioned in the athletic marketplace and expects the division to post solid increases in sales and profits in 2006.

The Company purchased 349 Footaction stores from Footstar, Inc. in May 2004 to expand its reach into urban markets in the United States. Footaction's target customer is a 15 to 30 year old male who is influenced by the "street" and "hip-hop" culture. The benefits gained by the Company from acquiring Footaction include providing an excellent complementary fit with its other athletic formats and expanding the demographic characteristics of the Company's customer base.

Footaction stores, which average 4,700 gross square feet, are conveniently located to their primary customers and are properly sized to allow an attractive display of a broad array of product choices. During 2005, a key focus of the management team of Footaction was to improve customer service levels and enhance the store's merchandise offerings. Today, store associates are better trained to service its customers and products are current, fashion-right and well positioned for 2006.

As expected, Footaction made a meaningful sales and profit contribution to the Company's financial results in 2005. Its division profit margin increased to the mid-single digit range from a loss in the prior year. The Company expects that the division profit of Footaction will continue to be enhanced in the coming year and that its division margin rate will ultimately reach or exceed that of Foot Locker U.S. Given its initial success and expected improvements, the Company is currently pursuing additional store growth for this chain.

Given Footaction's success and expected improvements, the Company is currently pursuing additional store growth for this chain.

Kids Foot Locker

Kids Foot Locker is the market leader in selling children's athletic footwear and apparel, targeting a mother of a 5 to 11 year old child. This business, which was developed in 1987 to extend the reach of Foot Locker and to appeal to a young consumer, currently operates 327 stores in the United States that average 2,400 gross square feet.

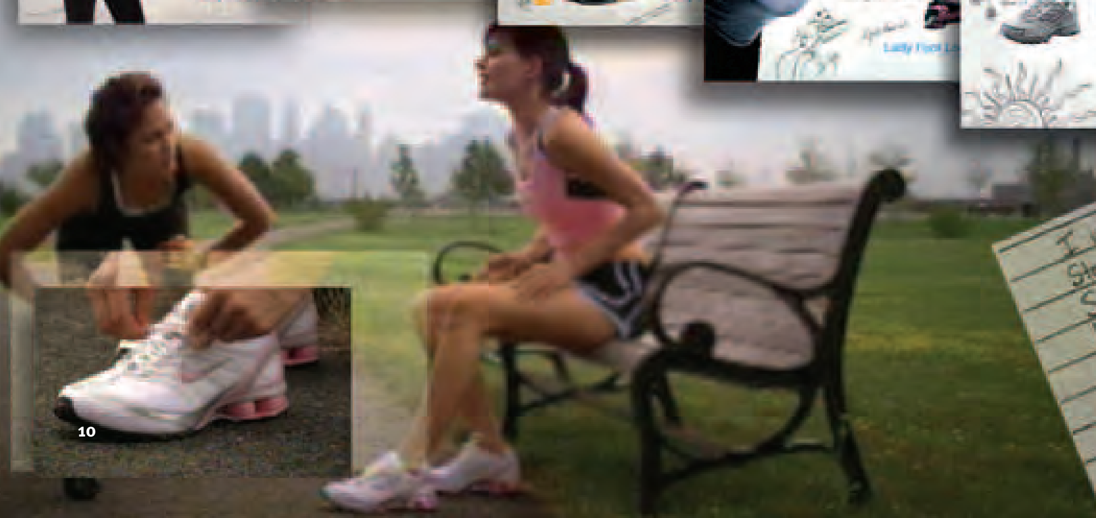
During the past three years, the Company has significantly increased the profitability of Kids Foot Locker through the implementation of several key strategies, including closing underperforming stores. In 2005, Kids Foot Locker produced another solid comparable-store sales gain and achieved record division profit results. With the overall store base currently operating at a much-improved division margin, the Company plans to pursue renewed store growth for this division.

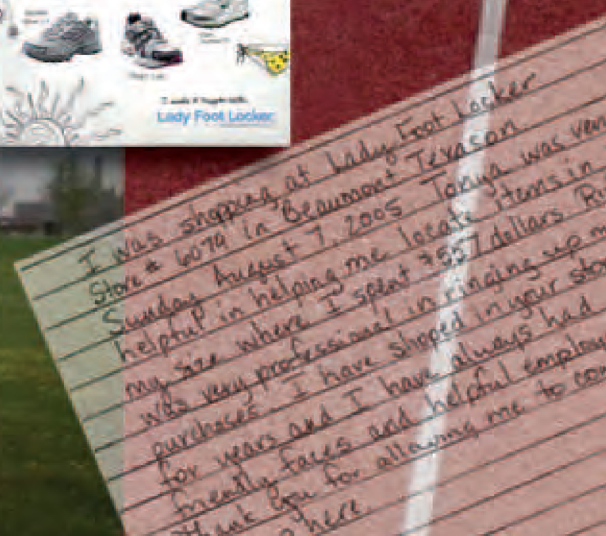
Lady Foot Locker

Lady Foot Locker operates 554 stores in the United States that average 2,200 gross square feet. This business was developed by the Company in 1982, with a focus on providing a "women-friendly" shopping experience by offering athletically-inspired footwear and apparel in a comfortable environment. Today, Lady Foot Locker is uniquely positioned in the marketplace as a destination location for the active 14 to 35 year old female shopper.

Two years ago Lady Foot Locker embarked on a strategy designed to enhance its branded and private-label apparel offerings to have greater appeal to its target customer. In 2005, Lady Foot Locker built on the early success of this strategy by further developing its private-label apparel program and by working closely with its suppliers to provide more fashionable branded footwear products that would appeal to a more diverse customer base. These strategies contributed to solid comparable-store sales gains and a significant increase in division profit last year. Looking ahead, the Company believes that Lady Foot Locker will continue to benefit from these programs.

Kids Foot Locker and Lady Foot Locker continue to produce improving financial results.





Footlocker.com, the Company's direct-to-customers business, is the world's leading retailer that sells athletic footwear, apparel and equipment via catalogs and E-commerce websites. This business includes the well-known Eastbay brand, which the Company acquired almost 10 years ago as a means to expand its customer base by selling athletic footwear, apparel and equipment through a well-managed catalog operation.

During the past several years, the business has expanded rapidly, primarily by developing E-commerce websites capitalizing on the Company's highly-recognizable brand names. Another strategy that has contributed to this division's success entails arrangements with well-known third parties, whereby Footlocker.com provides the development, merchandising, fulfillment and customer service to support catalog and E-commerce sales. These third parties include the National Basketball Association, Arena Football League, Amazon.com, United States Olympic Committee, ESPN and several of the Company's key suppliers.

Today, Footlocker.com is a well-run business with its catalog and Internet operations integrated within a single, highly efficient infrastructure, including a distribution center with sufficient capacity to support management's near-term growth plans. This business is complementary to the Company's retail stores due to its appeal to a wider customer base by offering a greater assortment of styles and sizes, and more technically oriented sporting goods with the convenience of shopping from home.

In 2005, Footlocker.com produced very solid financial results with sales increasing 4.1 percent versus last year, to $381 million. The division profit of Footlocker.com increased 6.7 percent versus last year to $48 million, maintaining a solid 12.6 percent of sales.

Footlocker.com is the world's leading retailer that sells athletic footwear, apparel and equipment via catalogs and E-commerce websites.

Foot Locker, Inc.

Community Involvement

Throughout its history, Foot Locker, Inc. has recognized the importance of supporting the communities around the world in which it operates. For this reason, the Company established Foot Locker Foundation, Inc. in 2001 to enhance its ability to raise funds and increase its ability to contribute to worthy causes. Since its inception, Foot Locker Foundation, Inc. has hosted its annual "On Our Feet" fundraising event to benefit various charitable organizations such as the United Negro College Fund, the United Way of New York City and Reading Is Fundamental.

2005 was a year in which Foot Locker, Inc. furthered its commitment to community involvement by supporting victims of natural disasters. This past spring, the Company took part in the relief efforts of the tsunami disaster in South Asia, donating a total of 82,500 pairs of athletic footwear to Save the Children, which provides relief aid to children in need around the world. In addition, 14,000 pairs of footwear were donated to needy children who participated in Save the Children programs in the United States. The Company also stepped up its charitable efforts this past year in response to the devastating hurricanes in the United States, including administering associates' personal contributions that were directed to the victims and their families.

The support of the American Cancer Society by participating in its Annual "Making Strides Against Breast Cancer" walk and raising funds through the sale of Pink Ribbon tee shirts and jewelry are ongoing programs in which the Company and its associates have contributed for several years. The Fred Jordan Mission, a faith-based mission founded in 1944 in Los Angeles, California, is another organization that the Company supports each year by donating shoes and school supplies to thousands of children in the inner city.

Going forward, the Company expects to continue to be an active supporter of worthwhile causes and organizations. It is with a sense of pride that Foot Locker, Inc. seeks to improve the quality of life through ongoing community involvement programs.

It is with a sense of pride that Foot Locker, Inc. seeks to improve the quality of life through ongoing community involvement programs.

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

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the fiscal year ended January 28, 2006

Commission file number 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 West 34th Street, New York, New York	**10120**
(Address of principal executive offices)	*(Zip Code)*

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

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

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01	New York Stock Exchange

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.
Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

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

See pages 59 through 62 for Index of Exhibits.

Number of shares of Common Stock outstanding at March 17, 2006:	155,487,431
The aggregate market value of voting stock held by non-affiliates of the Registrant computed by reference to the closing price as of the last business day of the Registrant's most recently completed second fiscal quarter, July 29, 2005, was approximately:	$2,851,036,844*

* For purposes of this calculation only (a) all directors plus one executive officer and owners of five percent or more of the Registrant are deemed to be affiliates of the Registrant and (b) shares deemed to be "held" by such persons at July 29, 2005 include only outstanding shares of the Registrant's voting stock with respect to which such persons had, on such date, voting or investment power.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement (the "Proxy Statement") to be filed in connection with the Annual Meeting of Shareholders to be held on May 24, 2006: Parts III and IV.

TABLE OF CONTENTS

PART I

PART II

PART III

PART IV

PART I

Item 1. Business

General

Foot Locker, Inc., incorporated under the laws of the State of New York in 1989, is a leading global retailer of athletic footwear and apparel, operating as of January 28, 2006, 3,921 primarily mall-based stores in the United States, Canada, Europe and Asia Pacific, which includes Australia and New Zealand. Foot Locker, Inc. and its subsidiaries hereafter are referred to as the "Registrant" or "Company." Information regarding the business is contained under the "Business Overview" section in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

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

The Certification of the Chief Executive Officer required by Section 303A.12(a) of The New York Stock Exchange Listing Standards relating to the Company's compliance with The New York Stock Exchange Corporate Governance Listing Standards was submitted to The New York Stock Exchange on June 15, 2005.

Information Regarding Business Segments and Geographic Areas

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

The service marks and trademarks appearing on this page and elsewhere in this report (except for ESPN, NBA, Nike, Amazon.com, Burger King, Popeye's, The San Francisco Music Box Company and USOC) are owned by Foot Locker, Inc. or its subsidiaries.

Employees

The Company and its consolidated subsidiaries had 16,403 full-time and 27,873 part-time employees at January 28, 2006. The Company considers employee relations to be satisfactory.

Competition

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

Merchandise Purchases

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

Item 1A. Risk Factors

The statements contained in this Annual Report on Form 10-K and incorporated by reference ("Annual Report") that are not historical facts, including, but not limited to, statements regarding our expected financial position, business and financing plans found in "Item 1. Business" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The words "may," "believes," "expects," "plans," "intends," "anticipates" and similar expressions identify forward-looking statements. The actual results of the future events described in such forward-looking statements could differ materially from those stated in such forward-looking statements.

Our actual results may differ materially due to the risks and uncertainties discussed in this Annual Report, including those discussed below. Accordingly, readers of the Annual Report should consider these facts in evaluating the information and are cautioned not to place undue reliance on the forward-looking statements contained herein. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

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

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

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

The businesses in which we operate are highly competitive.

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

Although we sell merchandise via the Internet through Footlocker.com and its affiliates, a significant shift in customer buying patterns to purchasing athletic footwear, athletic apparel and sporting goods via the Internet could have a material adverse effect on us. In addition, some of the manufacturers of our products distribute products directly through the Internet and others may follow. Should this occur and if our customers decide to purchase directly from our manufacturers, it could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

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

Our business is dependent to a significant degree upon our ability to purchase brand-name merchandise at competitive prices, including the receipt of volume discounts and cooperative advertising and other allowances from our vendors. The Company purchased approximately 75 percent of its merchandise in 2005 from its top five vendors, and expects to continue to obtain a significant percentage of its athletic product from these vendors in future periods. Of that amount approximately 49 percent was purchased from one vendor — Nike, Inc. ("Nike"). We have no long-term supply contracts with any of our vendors. Our inability to obtain merchandise in a timely manner from major suppliers (particularly Nike) as a result of business decisions by our suppliers or any disruption in the supply chain could have a material adverse effect on our business, financial condition and results of operations. Because of our strong dependence on Nike, any adverse development in Nike's financial condition and results of operations or the inability of Nike to develop and manufacture products that appeal to our target customers could also have an adverse effect on our business, financial condition and results of operations. We cannot assure you that we will be able to acquire merchandise at competitive prices or on competitive terms in the future.

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

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

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

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

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

Approximately 25 percent of our sales and a significant portion of our operating profits for 2005 were attributable to our sales in Europe, Canada, New Zealand and Australia. As a result, our business is subject to the risks generally associated with doing business outside of the United States, such as foreign governmental regulations, foreign customer preferences, political unrest, disruptions or delays in shipments and changes in economic conditions in countries in which we operate. Although we enter into forward foreign exchange contracts and option contracts to reduce the effect of foreign currency exchange rate fluctuations, our operations may be adversely affected by significant changes in the value of the U.S. dollar as it relates to certain foreign currencies.

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

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

Complications in our distribution centers may affect our business.

We operate three distribution centers worldwide to support our athletic business. If complications arise with any one facility or any facility is severely damaged or destroyed, the other distribution centers may not be able to support the resulting additional distribution demands. This may adversely affect our ability to deliver inventory on a timely basis.

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The properties of the Company and its consolidated subsidiaries consist of land, leased and owned stores and administrative and distribution facilities. Gross operating square footage and total selling area for the Athletic Stores segment at the end of 2005 was approximately 14.48 and 8.71 million square feet, respectively. These properties are primarily located in the United States, Canada, various European countries, Australia and New Zealand.

The Company currently operates three distribution centers, of which one is owned and two are leased, occupying an aggregate of 2.12 million square feet. Two of the three distribution centers are located in the United States and one is in Europe.

Item 3. 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, as well as litigation incidental to the sale and disposition of businesses that have occurred in past years. These legal proceedings include commercial, intellectual property, customer, and labor-and-employment-related claims, including class action lawsuits in which plaintiffs allege violations by the Company of state wage and hour and other laws. Management does not believe that the outcome of such proceedings would have a material adverse effect on the Company's consolidated financial position, liquidity, or results of operations, taken as a whole.

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

There were no matters submitted to a vote of security holders during the fourth quarter of the year ended January 28, 2006.

Executive Officers of the Company

Information with respect to Executive Officers of the Company, as of March 27, 2006, is set forth below:

Chairman of the Board, President and Chief Executive Officer	Matthew D. Serra
President and Chief Executive Officer, Foot Locker, Inc. — U.S.A.	Richard T. Mina
Senior Vice President, General Counsel and Secretary	Gary M. Bahler
Senior Vice President — Real Estate	Jeffrey L. Berk
Senior Vice President and Chief Information Officer	Marc D. Katz
Senior Vice President and Chief Financial Officer	Robert W. McHugh
Senior Vice President — Strategic Planning	Lauren B. Peters
Senior Vice President — Human Resources	Laurie J. Petrucci
Vice President — Investor Relations and Treasurer	Peter D. Brown
Vice President and Chief Accounting Officer	Giovanna Cipriano

Matthew D. Serra, age 61, has served as Chairman of the Board since February 1, 2004, President since April 12, 2000 and Chief Executive Officer since March 4, 2001. Mr. Serra served as Chief Operating Officer from February 2000 to March 3, 2001 and as President and Chief Executive Officer of Foot Locker Worldwide from September 1998 to February 2000.

Richard T. Mina, age 49, has served as President and Chief Executive Officer of Foot Locker, Inc.- U.S.A. since February 2, 2003. He served as President and Chief Executive Officer of Champs Sports, an operating division of the Company, from April 1999 to February 1, 2003.

Gary M. Bahler, age 54, has served as Senior Vice President since August 1998, General Counsel since February 1993 and Secretary since February 1990.

Jeffrey L. Berk, age 50, has served as Senior Vice President — Real Estate since February 2000.

Marc D. Katz, age 41, has served as Senior Vice President and Chief Information Officer since May 12, 2003. Mr. Katz served as Vice President and Chief Information Officer from July 2002 to May 11, 2003. During the period of 1999 to 2002, he served in the following capacities at the Financial Services Center of Foot Locker Corporate Services: Vice President and Controller from July 2001 to April 2002 and Controller from December 1999 to July 2001.

Robert W. McHugh, age 47, has served as Senior Vice President and Chief Financial Officer since November 21, 2005. He served as Vice President and Chief Accounting Officer from January 2000 to November 20, 2005.

Lauren B. Peters, age 44, has served as Senior Vice President — Strategic Planning since April 18, 2002. Ms. Peters served as Vice President — Planning from January 2000 to April 17, 2002.

Laurie J. Petrucci, age 47, has served as Senior Vice President — Human Resources since May 2001. Ms. Petrucci served as Senior Vice President — Human Resources of the Foot Locker Worldwide division from March 2000 to May 2001.

Peter D. Brown, age 51, has served as Vice President — Investor Relations and Treasurer since October 2001. Mr. Brown served as Vice President — Investor Relations and Corporate Development from April 2001 to October 2001 and as Assistant Treasurer — Investor Relations and Corporate Development from August 2000 to April 2001.

Giovanna Cipriano, age 36, has served as Vice President and Chief Accounting Officer since November 21, 2005. She served as as Divisional Vice President, Financial Controller from June 3, 2002 through November 20, 2005 and as Financial Controller from April 2, 1999 through June 2, 2002.

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

PART II

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

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

This table provides information with respect to purchases by the Company of shares of its Common Stock during the fourth quarter of 2005:

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program (1)	Approximate Dollar Value of Shares that May Yet be Purchased Under the Program (1)
October 30, 2005 to November 26, 2005	50,000	$21.975	50,000	$28,967,188
November 27, 2005 to December 31, 2005	629,600	22.183	629,600	15,000,972
January 1, 2006 to January 28, 2006	—	—	—	15,000,972
Total	679,600	$22.167	679,600	

(1) On November 20, 2002, the Company announced that the Board of Directors authorized the purchase of up to $50 million of the Company's Common Stock; of which 1,589,800 shares have been purchased for approximately $35 million. This authorization terminated on February 3, 2006. On February 15, 2006, the Company announced that its Board of Directors authorized a new $150 million, 3-year repurchase program.

Item 6. Selected Financial Data

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

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Business Overview

Foot Locker, Inc., through its subsidiaries, operates in two reportable segments — Athletic Stores and Direct-to-Customers. The Athletic Stores segment is one of the largest athletic footwear and apparel retailers in the world, whose formats include Foot Locker, Lady Foot Locker, Kids Foot Locker, Champs Sports and Footaction (beginning May 2004). The Direct-to-Customers segment reflects Footlocker.com, Inc., which sells, through its affiliates, including Eastbay, Inc., to customers through catalogs and Internet websites.

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

<u>*Athletic Stores*</u>

The Company operates 3,921 stores in the Athletic Stores segment. The following is a brief description of the Athletic Stores segment's operating businesses:

Foot Locker — Foot Locker is a leading athletic footwear and apparel retailer. Its stores offer the latest in athletic-inspired performance products, manufactured primarily by the leading athletic brands. Foot Locker offers products for a wide variety of activities including running, basketball, hiking, tennis, aerobics, fitness, baseball, football and soccer. Its 2,121 stores are located in 20 countries including 1,398 in the United States, Puerto Rico, the United States Virgin Islands and Guam, 128 in Canada, 501 in Europe and a combined 94 in Australia and New Zealand. The domestic stores have an average of 2,100 selling square feet and the international stores have an average of 1,500 selling square feet.

Champs Sports — Champs Sports is one of the largest mall-based specialty athletic footwear and apparel retailers in the United States. Its product categories include athletic footwear, apparel and accessories, and a focused assortment of equipment. This combination allows Champs Sports to differentiate itself from other mall-based stores by presenting complete product assortments in a select number of sporting activities. Its 556 stores are located throughout the United States, Canada and the United States Virgin Islands. The Champs Sports stores have an average of 3,800 selling square feet.

Footaction — Footaction is a national athletic footwear and apparel retailer that offers street-inspired fashion styles. The primary customers are young urban males with the secondary customers being young urban women with diverse fashion needs. Its 363 stores are located throughout the United States and Puerto Rico and focus on marquee allocated footwear and branded apparel. The Footaction stores have an average of 2,900 selling square feet.

Lady Foot Locker — Lady Foot Locker is a leading U.S. retailer of athletic footwear, apparel and accessories for women. Its stores carry all major athletic footwear and apparel brands, as well as casual wear and an assortment of proprietary merchandise designed for a variety of activities, including running, basketball, walking and fitness. Its 554 stores are located in the United States, Puerto Rico and the United States Virgin Islands and have an average of 1,300 selling square feet.

Kids Foot Locker — Kids Foot Locker is a national children's athletic retailer that offers the largest selection of brand-name athletic footwear, apparel and accessories for infants, boys and girls, primarily on an exclusive basis. Its stores feature an entertaining environment geared to both parents and children. Its 327 stores are located in the United States, Puerto Rico, and the United States Virgin Islands and have an average of 1,400 selling square feet.

Store Profile

	At January 29, 2005	Opened	Closed	At January 28, 2006
Foot Locker	2,135	75	89	2,121
Champs Sports	570	11	25	556
Footaction	349	24	10	363
Lady Foot Locker	567	8	21	554
Kids Foot Locker	346	1	20	327
Total Athletic Stores	3,967	119	165	3,921

Direct-to-Customers

Footlocker.com — Footlocker.com, Inc., sells, through its affiliates, directly to customers through catalogs and its Internet websites. Eastbay, Inc., one of its affiliates, is one of the largest direct marketers of athletic footwear, apparel, equipment and team licensed private-label merchandise in the United States and provides the Company's eight full-service e-commerce sites access to an integrated fulfillment and distribution system. The Company has a strategic alliance to offer footwear and apparel on the Amazon.com website and the Foot Locker brands are featured in the Amazon.com specialty stores for apparel and accessories and sporting goods. The Company also has an arrangement with the NBA and Amazon.com whereby Footlocker.com provides the fulfillment services for NBA licensed products sold over the Internet at NBAstore.com and the NBA store on Amazon.com. In addition, the Company has a marketing agreement with the U.S. Olympic Committee (USOC) providing the Company with the exclusive rights to sell USOC licensed products through catalogs and via a new e-commerce site. The Company has an agreement with ESPN for ESPN Shop — an ESPN-branded direct mail catalog and e-commerce site linked to *www.ESPNshop.com*, where fans can purchase athletic footwear, apparel and equipment which will be managed by Footlocker.com. Both the catalog and the e-commerce site feature a variety of ESPN-branded and non-ESPN-branded athletically inspired merchandise.

Overview of Consolidated Results

Sales increased by 5.6 percent to $5,653 million representing a comparable-store increase of 2.7 percent. Income from continuing operations before income taxes increased by 8.3 percent to $405 million. Diluted earnings per share was $1.67 from continuing operations in 2005 as compared with $1.64 in the corresponding prior year period.

Sales

All references to comparable-store sales for a given period relate to sales of stores that are open at the period-end and that have been open for more than one year and exclude the effect of foreign currency fluctuations. Accordingly, stores opened and closed during the period are not included. Sales from the Direct-to-Customer segment are included in the calculation of comparable-store sales for all periods presented. All references to comparable-store sales for 2004 exclude the acquisition of the 349 Footaction stores and the 11 stores purchased in the Republic of Ireland. Sales from acquired businesses that include the purchase of inventory will be included in the computation of comparable-store sales after 15 months of operations. Accordingly, Footaction sales are included in the computation of comparable-store sales since August 2005.

Sales of $5,653 million in 2005 increased by 5.6 percent from sales of $5,355 million in 2004. The effect of foreign currency fluctuations on sales was not significant. This increase is primarily related to increased sales in the Company's Footaction and Champs Sports formats. Comparable-store sales increased by 2.7 percent.

Sales of $5,355 million in 2004 increased by 12.1 percent from sales of $4,779 million in 2003. Excluding the effect of foreign currency fluctuations, sales increased by 9.8 percent as compared with 2003, primarily as a result of the Company's acquisition of 349 Footaction stores in May 2004 and the acquisition of 11 stores in the Republic of Ireland in late October 2004, which accounted for $332 million and $5 million in sales, respectively, for 2004. Comparable-store sales increased by 0.9 percent. The remaining increase is a result of the Company's continuation of the new store-opening program.

Gross Margin

Gross margin as a percentage of sales was 30.2 percent in 2005, decreasing by 30 basis points from 30.5 percent in 2004. This decline is primarily the result of increased markdowns recorded by the European operation. The effect of vendor allowances on gross margin, as a percentage of sales, as compared with the corresponding prior year period was not significant.

Gross margin as a percentage of sales was 30.5 percent in 2004, a decrease of 50 basis points from 31.0 percent in 2003. Of the 50 basis points decrease in 2004, approximately 60 basis points is the result of the Footaction chain, offset, in part, by a decrease in the cost of merchandise. The effect of vendor allowances on gross margin, as a percentage of sales, as compared with the corresponding prior year period was not significant.

Division Profit

The Company evaluates performance based on several factors, the primary financial measure of which is division profit. Division profit reflects income from continuing operations before income taxes, corporate expense, non-operating income and net interest expense. The following table reconciles division profit by segment to income from continuing operations before income taxes.

	2005	2004	2003
		(in millions)	
Athletic Stores	$419	$420	$363
Direct-to-Customers	48	45	53
Division profit	467	465	416
Restructuring charges (1)	—	(2)	(1)
Total division profit	467	463	415
Corporate expense	(58)	(74)	(73)
Total operating profit	409	389	342
Other income	6	—	—
Interest expense, net	(10)	(15)	(18)
Income from continuing operations before income taxes	$405	$374	$324

(1) As more fully described in the notes to the consolidated financial statements, restructuring charges of $2 million and $1 million in 2004 and 2003, respectively, were recorded related to the dispositions of non-core businesses.

Corporate Expense

Corporate expense consists of unallocated general and administrative expenses related to the Company's corporate headquarters, centrally managed departments, unallocated insurance and benefit programs, certain foreign exchange transaction gains and losses, certain depreciation and amortization expenses and other items.

The decrease in corporate expense of $16 million in 2005 comprised several items, and primarily included decreased incentive bonuses of $14 million, a $3 million decrease in costs associated with the Company's loyalty program as the prior year represented the initial costs to launch the program, and decreased restricted stock expense of $2 million. In addition, the prior year included $5 million for the integration of the Footaction stores. Included in the current year is a settlement of $3 million pursuant to a class action settlement with Visa and MasterCard related to past overcharges for certain debit card transactions. These decreases were offset, in part, by a charge of $4 million due to the potential insolvency of one of the Company's insurance carriers and legal and settlement costs of $5 million. Depreciation and amortization included in corporate expense amounted to $24 million in 2005, $23 million in 2004 and $25 million in 2003.

The increase in corporate expense in 2004 as compared with 2003 was primarily related to decreased incentive bonuses of $9 million, offset by increased expenses related to integration of Footaction of $5 million, restricted stock expense from additional grants of $4 million and costs of $3 million related to the Company's expanded loyalty program. Integration costs represent incremental costs directly related to the acquisitions, primarily expenses to re-merchandise the Footaction stores during the first three months of operations.

Other Income

Other income for 2005 represents a $3 million net gain on foreign currency option contracts that were entered into by the Company to mitigate the effect of fluctuating foreign exchange rates on the reporting of euro dominated earnings. Additionally, other income includes $3 million of insurance recoveries in excess of losses associated with Hurricane Katrina.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses increased by $41 million to $1,129 million in 2005, or by 3.8 percent, as compared with 2004. SG&A as a percentage of sales decreased to 20.0 percent as compared with 20.3 percent in 2004. The increase in SG&A is primarily related to an increase in payroll and related costs. The effect of including Footaction for the full fiscal year is an incremental $21 million, excluding the integration costs. During 2005, the Company donated 82,500 pairs of athletic footwear with a cost of $2 million to Save the Children Foundation. This donation benefited the tsunami victims in Banda Aceh, Indonesia, as well as Save the Children programs in the United States. The net of both pension expense and postretirement income did not change significantly from the prior year.

SG&A increased by $101 million to $1,088 million in 2004, or by 10.2 percent, as compared with 2003. Excluding the effect of foreign currency fluctuations, primarily related to the euro, SG&A increased by $82 million, of which the acquired businesses contributed $68 million. Increased payroll and related costs primarily comprised the balance of the increase. SG&A as a percentage of sales decreased to 20.3 percent compared with 20.7 percent in 2003. Pension expense declined by $2 million primarily as a result of the positive market performance experienced in the prior year. Additionally, postretirement income decreased by $2 million in 2004 as compared with 2003 as the amortization of the unrecognized gains, which are amortized over the average remaining life expectancy, continues to decrease over time.

Depreciation and Amortization

Depreciation and amortization of $171 million increased by 11.0 percent in 2005 from $154 million in 2004. This increase primarily reflects additional depreciation and amortization for the Athletic Stores segment due to capital spending and, in addition, adjustments to depreciable lives of certain fixed assets. Additionally, depreciation and amortization for the Footaction format increased by $6 million as compared with the prior year primarily due to increased capital expenditures related to store improvements and point-of-sale equipment.

Depreciation and amortization of $154 million in 2004 increased 1.3 percent as compared with $152 million in 2003. Depreciation and amortization of acquired businesses amounted to $7 million for 2004. These increases were offset by declines that were a result of older assets becoming fully depreciated.

Interest Expense, Net

	2005	2004	2003
		(in millions)	
Interest expense	$ 23	$ 22	$ 26
Interest income	(13)	(7)	(8)
Interest expense, net	$ 10	$ 15	$ 18
Weighted-average interest rate (excluding facility fees):			
Short-term debt	—%	—%	—%
Long-term debt	6.2%	5.2%	6.1%
Total debt	6.2%	5.2%	6.1%
Short-term debt outstanding during the year:			
High	$ —	$ —	$ —
Weighted-average	$ —	$ —	$ —

Interest expense of $23 million increased by 4.5 percent in 2005 from $22 million in 2004. Interest rate swap agreements reduced interest expense by approximately $1 million and $3 million in 2005 and 2004, respectively. The increase in 2005 was primarily attributable to higher interest rates.

Interest income is generated through the investment of cash equivalents, short-term investments, the accretion of the Northern Group note to its face value and accrual of interest on the outstanding principal, as well as, interest on income tax refunds. The increase in interest income of $6 million in 2005 was primarily related to increased interest income earned on short-term investments due to higher interest rates and increased short-term investment balances. Interest income on the Northern Group note amounted to $2 million in both 2005 and 2004. Interest income related to cash equivalents and short-term investments was $11 million in 2005 and $5 million in 2004.

Interest expense of $22 million declined by 15.4 percent in 2004 from $26 million in 2003. The decrease in 2004 was primarily attributable to the Company's $150 million 5.50 percent convertible subordinated notes that were converted to equity in June 2004. Also contributing to the reduction in interest expense was the repurchase of $19 million of the 8.50 percent debentures payable in 2022 in the latter part of 2003. Interest rate swap agreements reduced interest expense by approximately $3 million and $4 million in 2004 and 2003, respectively. These decreases were offset, in part, by an increase resulting from the interest on the $175 million term loan that commenced in May 2004.

Interest income related to cash equivalents and short-term investments decreased by $1 million in 2004 from 2003 as a result of the reduction of interest income earned on tax refunds and settlements as they were received during 2003. Interest income related to cash equivalents and short-term investments was $5 million in 2004 and 2003.

Income Taxes

The effective tax rate for 2005 was 35.0 percent as compared with 31.7 percent in the prior year. The increase was attributable to less benefit from non-recurring items than in 2004 and a higher percentage of the Company's income earned in the United States, rather than from lower-taxed international operations. During 2005, the Company restructured its Canadian continuing business, which resulted in a $6 million reduction to its income tax valuation allowance related to Canadian tax loss carry-forwards and unclaimed tax depreciation. Additionally, the Company recorded an income tax benefit of $3 million in discontinued operations related to its former Canadian operations.

The effective tax rate for 2004 was 31.7 percent, as compared with 35.5 percent in the prior year. The reduction was principally related to a lower rate of tax on the Company's foreign operations and the settlement of tax examinations. During 2004, the Commonwealth of Puerto Rico concluded an examination of the Company's branch income tax returns, including an income tax audit for the years 1994 through 1999 and a branch profit tax audit for the years 1994 through 2002. As a result, the Company reduced its income tax provision for continuing operations by $2 million. Also during 2004, the IRS completed its survey of the Company's income tax returns for the years from 1999-2001 and its examination of the 2002 year. The IRS and the Company completed a pre-filing review and post-filing review of the Company's income tax return for 2003. As a result of these actions by the IRS and the completion of the Company's analysis, the Company reduced its income tax provision for continuing operations by $12 million and discontinued operations by $37 million.

The effective rate for 2003 was 35.5 percent, as compared with 34.2 percent in 2002. The increased tax rate was primarily due to the Company recording tax benefits of $5 million in 2003 as compared to $9 million in 2002. In addition the rate increased due to a shift in taxable income from lower to higher tax jurisdictions. During 2003, the Company recorded a $1 million tax benefit related to state tax law changes, a $2 million tax benefit related to a reduction in the valuation allowance for deferred tax assets related to a multi-state tax planning strategy, a $1 million tax benefit related to a reduction in the valuation allowance for foreign tax loss carryforwards, and a tax benefit of $1 million related to the settlement of tax examinations.

Segment Information

Athletic Stores

	2005	2004	2003
		(in millions)	
Sales	$5,272	$4,989	$4,413
Division profit	$ 419	$ 420	$ 363
Sales as a percentage of consolidated total	93%	93%	92%
Number of stores at year end	3,921	3,967	3,610
Selling square footage (in millions)	8.71	8.89	7.92
Gross square footage (in millions)	14.48	14.78	13.14

2005 compared with 2004

Athletic Stores sales of $5,272 million increased 5.7 percent in 2005, as compared with $4,989 million in 2004. Excluding the effect of foreign currency fluctuations, primarily related to the euro, sales from athletic store formats increased 5.5 percent in 2005. Comparable-store sales increased by 2.6 percent in 2005. These increases were primarily driven by sales related to the Footaction division, which was acquired in May 2004. Approximately $126 million of the increase in Footaction represented the inclusion of their operations for the full year in 2005. Champs Sports experienced a strong increase in sales during 2005, as this format benefited from higher quantities of marquee athletic footwear and private label apparel. Foot Locker Canada also experienced increased sales. Excluding the effect of foreign currency fluctuations, Foot Locker Europe's sales were essentially flat as compared with the corresponding prior year period.

Division profit from Athletic Stores decreased by 0.2 percent to $419 million in 2005 from $420 million in 2004. Division profit, as a percentage of sales, decreased to 7.9 percent in 2005 from 8.4 percent in 2004. This decline is primarily a result of the decreased profit from the European operations as compared with the prior year. The continued weak economy, the increased competitive environment and a fashion shift from higher priced marquee footwear to lower priced low profile footwear negatively affected Europe's operating results. In addition during 2005, Foot Locker Europe recorded significantly higher markdowns as a result of the continued promotional environment, particularly in the U.K. and France, and to clear excess inventory. Despite these factors, in 2005 Foot Locker Europe achieved a double-digit division profit margin. Management is currently implementing various merchandising and management initiatives identified during the third and fourth quarters of 2005, in order to address both the internal and external factors that negatively affected the current year results. Management will continue to monitor the progress of the European operations and will assess, if necessary, the impact of these initiatives on the projected performance of the division, which may include an analysis of recoverability of store long-lived assets pursuant to SFAS No. 144. Management expects the trend toward lower priced low profile footwear and the competitive environment to continue during 2006. The decline noted in Europe was partially offset by the improved results at the Footaction, Champs Sports and the Canadian divisions. The increase in Footaction is primarily a result of the inclusion of their results for the full year as compared with a partial year during 2004. Champs Sports continues to be one of our most profitable divisions.

2004 compared with 2003

Athletic Stores sales of $4,989 million increased 13.1 percent in 2004, as compared with $4,413 million in 2003. Excluding the effect of foreign currency fluctuations, primarily related to the euro, sales from athletic store formats increased 10.6 percent in 2004. This increase was primarily driven by incremental sales related to the acquisition of the 349 Footaction stores in May 2004 totaling $332 million and the sales of the 11 stores acquired in the Republic of Ireland amounting to $5 million. The balance of the increase primarily reflects new store growth. Total Athletic Stores comparable-store sales increased by 1.0 percent in 2004. The Company benefited from continued exclusive offerings from its primary suppliers, gaining access to greater amounts of marquee products, and a developing trend towards higher priced technical footwear.

Division profit from Athletic Stores increased by 15.7 percent to $420 million in 2004 from $363 million in 2003. Division profit, as a percentage of sales, increased to 8.4 percent in 2004 from 8.2 percent in 2003. The increase in 2004 was primarily driven by the overall improvement in the SG&A rate as a result of better expense control. SG&A, as a percentage of sales, declined to 18.8 percent in 2004, as compared with 19.1 percent in the prior year. Operating performance improved in all of the formats that comprised the Athletic Stores segment. European operations improved as compared with the prior year, despite a more promotional environment. Additionally, Champs Sports and Lady Foot Locker improved considerably during 2004. Lady Foot Locker benefited from its modified merchandise assortment. For the year ended January 29, 2005, the Footaction format negatively affected division profit. This was primarily the result of a lower gross margin rate as compared with the Athletic Stores segment largely related to higher occupancy costs as compared with the Athletic Stores segment as a whole.

Direct-to-Customers

	2005	2004	2003
		(in millions)	
Sales	$381	$366	$366
Division profit	$ 48	$ 45	$ 53
Sales as a percentage of consolidated total	7%	7%	8%

2005 compared with 2004

Direct-to-Customers sales increased 4.1 percent to $381 million in 2005, as compared with $366 million 2004. The growth of the Internet business continued to drive sales in 2005. Internet sales increased by 14.6 percent to $243 million from $212 million in 2004. Catalog sales decreased by 10.4 percent to $138 million in 2005 from $154 million in 2004. Management believes that the decrease in catalog sales, which was substantially offset by the increase in Internet sales, is a result of customers browsing and selecting products through its catalogs and then making their purchases via the Internet.

The Direct-to-Customers business generated division profit of $48 million in 2005, as compared with $45 million in 2004. Division profit, as a percentage of sales, increased to 12.6 percent in 2005 from 12.3 percent in 2004. The Company's alliances with third parties, such as the USOC and ESPN continue to benefit the operations.

2004 compared with 2003

Direct-to-Customers sales were $366 million in both 2004 and 2003. The growth of the Internet business continued to drive sales in 2004. Internet sales increased by 11.0 percent to $212 million from $191 million in 2003. Catalog sales decreased by 12.0 percent to $154 million in 2004 from $175 million in 2003. Management believes that the decrease in catalog sales, which was substantially offset by the increase in Internet sales, is a result of customers browsing and selecting products through its catalogs and then making their purchases via the Internet. The Company continues to implement new initiatives to increase this business, including new marketing arrangements and strategic alliances with well-known third parties. During the fourth quarter of 2004, a new agreement was reached with ESPN whereby the Company manages the ESPN Shop — an ESPN-branded direct mail catalog and e-commerce destination where fans can purchase athletic footwear, apparel and equipment.

The Direct-to-Customers business generated division profit of $45 million in 2004, as compared with $53 million in 2003. The decrease in division profit is a result of expanded catalog circulation expenses in 2004. Division profit, as a percentage of sales, decreased to 12.3 percent from 14.5 percent; however, the Direct-to-Customer business remains more profitable than the Company's Athletic Stores segment.

Liquidity and Capital Resources

Liquidity

Generally, the Company's primary source of cash has been from operations. The Company usually finances real estate with operating leases. The principal uses of cash have been to finance inventory requirements, capital expenditures related to store openings, store remodelings and management information systems, and to fund other general working capital requirements.

Management believes operating cash flows and current credit facilities will be adequate to fund its working capital requirements, scheduled pension contributions for the Company's retirement plans, scheduled debt repayments, anticipated quarterly dividend payments, potential share repurchases, and to support the development of its short-term and long-term operating strategies.

The Company contributed an additional $68 million to its U.S. and Canadian qualified pension plans in February 2006. Planned capital expenditures for 2006 are $180 million, of which $155 million relates to new store openings and modernizations of existing stores and $25 million reflects the development of information systems and other support facilities. In addition, planned lease acquisition costs are $10 million and primarily relate to the Company's operations in Europe. The Company has the ability to revise and reschedule the anticipated capital expenditure program, should the Company's financial position require it.

Maintaining access to merchandise that the Company considers appropriate for its business may be subject to the policies and practices of its key vendors. Therefore, the Company believes that it is critical to continue to maintain satisfactory relationships with its key vendors. The Company purchased approximately 75 percent in 2005 and 74 percent in 2004 of its merchandise from its top five vendors, in each respective year, and expects to continue to obtain a significant percentage of its athletic product from these vendors in future periods. Of that amount, approximately 49 percent in 2005 and 45 percent in 2004 was purchased from one vendor — Nike, Inc. ("Nike") — and 8 percent and 13 percent from another in 2005 and 2004, respectively.

Any materially 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, risks associated with foreign global sourcing or economic conditions worldwide could affect the ability of the Company to continue to fund its needs from business operations.

Cash Flow

Operating activities from continuing operations provided cash of $354 million in 2005 as compared with $289 million in 2004. These amounts reflect income from continuing operations adjusted for non-cash items and working capital changes. The net increase in operating cash flows of $65 million is primarily due to improved operating performance and changes in working capital primarily related to changes in merchandise inventories, offset by the related payables and lower pension contributions of $26 million in 2005 as compared with $106 million in 2004.

Operating activities from continuing operations provided cash of $289 million in 2004 as compared with $264 million in 2003. The net increase is primarily related to the increase in net income as compared with the prior year, offset in part by an additional $56 million in pension contributions and increased working capital usage. Merchandise inventories increased by $120 million to support the recent acquisitions, offset by an increase in accounts payable. The change in other primarily reflects a prepaid income tax that represents an overpayment of tax, which the Company applied to its 2005 payments.

Net cash used in investing activities of the Company's continuing operations was $187 million in 2005 as compared with $424 million in 2004. During 2004, the Company paid $226 million for the purchase of 349 Footaction stores from Footstar, Inc. and paid €13 million (approximately $16 million) for the purchase of 11 stores in the Republic of Ireland. During 2005, the Company resolved the remaining Footaction lease matter and received $1 million from the escrow account. The Company's purchase of short-term investments, net of sales, increased by $31 million in 2005 as compared with an increase of $9 million in 2004. Capital expenditures of $155 million in 2005 and $156 million in 2004 primarily related to store remodeling and new stores. Lease acquisition costs, primarily to secure and extend leases for prime locations in Europe, were $8 million and $17 million in 2005 and 2004, respectively. Proceeds from the settlement of foreign currency option contracts, net of premiums paid, was $3 million in 2005. The Company also received $3 million of insurance proceeds related to the hurricanes in 2005, representing the portion of insurance recoveries in excess of losses recorded.

Net cash used in investing activities of the Company's continuing operations was $424 million in 2004 as compared with $265 million in 2003. During 2004, the Company paid $242 million for acquisitions of the Footaction stores and the stores in the Republic of Ireland. The Company's purchase of short-term investments, net of sales, increased by $9 million in 2004 as compared with an increase of $106 million in 2003. Capital expenditures of $156 million in 2004 and $144 million in 2003 primarily related to store remodeling and new stores. Lease acquisition costs, primarily to secure and extend leases for prime locations in Europe, were $17 million and $15 million in 2004 and 2003, respectively.

Net cash used in financing activities of continuing operations was $105 million in 2005 as compared with net cash provided of $167 million in 2004. The Company repaid $35 million of its 5-year, $175 million term loan during 2005 and declared and paid dividends totaling $49 million in 2005 and $39 million in 2004. During 2005 and 2004, the Company received proceeds from the issuance of common and treasury stock in connection with employee stock programs of $14 million and $33 million, respectively. As part of its Board-authorized $50 million stock repurchase program, the Company purchased 1.6 million shares of its common stock during 2005 for approximately $35 million. On February 15, 2006, the

Company announced that its Board of Directors authorized a new $150 million, 3-year share repurchase program. Under the share repurchase program, subject to legal and contractual restrictions, the Company may make purchases of its common stock, from time to time, depending on market conditions, availability of other investment opportunities and other factors.

Net cash provided by financing activities of continuing operations was $167 million in 2004 as compared with net cash used of $13 million in 2003. The Company elected to finance a portion of the purchase price of the Footaction stores, and on May 19, 2004 obtained a 5-year, $175 million term loan from the bank group participating in its existing revolving credit facility. Concurrent with obtaining the term loan, the Company amended and extended the revolving credit facility to expire in 2009. Financing fees paid for both the term loan and the revolving credit facility amounted to $2 million. During 2003, the Company repurchased $19 million of its 8.50 percent debentures that are due in 2022. The Company declared and paid dividends totaling $39 million in 2004 and $21 million in 2003. During 2004 and 2003, the Company received proceeds from the issuance of common and treasury stock in connection with employee stock programs of $33 million and $27 million, respectively.

Capital Structure

During 2004, the Company obtained a 5-year, $175 million term loan to finance a portion of the purchase price of the Footaction stores. Concurrent with the financing of a portion of the Footaction acquisition, the Company amended its revolving credit agreement, thereby, extending the maturity date to May 2009 from July 2006. The agreement includes various restrictive financial covenants with which the Company was in compliance on January 28, 2006. During 2005, the Company prepaid the first and second principal payments totaling $35 million, which would have been due in May 2005 and May 2006. In February 2006, the Company repaid an additional $50 million of the term loan, thereby reducing the loan to $90 million.

In 2004, the Company redeemed its entire $150 million outstanding 5.50 percent convertible subordinated notes. All of the convertible subordinated notes were cancelled and approximately 9.5 million new shares of the Company's common stock were issued. The Company reclassified the remaining $3 million of unamortized deferred costs related to the original issuance of the convertible debt to equity as a result of the conversion.

Credit Rating

The Company's corporate credit rating from Standard & Poor's is BB+ and Ba1 from Moody's Investors Service.

Debt Capitalization and Equity

For purposes of calculating debt to total capitalization, the Company includes the present value of operating lease commitments. These commitments are the primary financing vehicle used to fund store expansion. The following table sets forth the components of the Company's capitalization, both with and without the present value of operating leases;

	2005	2004
	(in millions)	
Cash, cash equivalents and short-term investments, net of debt and capital lease obligations	$ 261	$ 127
Present value of operating leases	1,934	1,989
Total net debt	1,673	1,862
Shareholders' equity	2,027	1,830
Total capitalization	$3,700	$3,692
Net debt capitalization percent	45.2%	50.4%
Net debt capitalization percent without operating leases	—%	—%

Excluding the present value of operating leases, the Company's cash, cash equivalents and short-term investments, net of debt and capital lease obligations, increased to $261 million at January 28, 2006 from $127 million at January 29, 2005. The Company reduced debt and capital lease obligations by $39 million, while increasing cash, cash equivalents and short-term investments by $95 million. Additionally, the present value of the operating leases decreased by $55 million representing the net change of lease renewals, the effect of foreign currency fluctuations primarily related to the euro and the result of the closure of 25 stores due to the hurricanes. Including the present value of operating leases, the Company's net debt capitalization percent improved 520 basis points in 2005. The increase in shareholders' equity relates to net income of $264 million in 2005, $27 million related to employee stock plans, and a decrease of $25 million in the foreign exchange currency translation adjustment, primarily related to the value of the euro in relation to the U.S. dollar. The Company declared and paid dividends totaling $49 million during 2005. The Company repurchased approximately 1.6 million shares for $35 million during the year. During 2005, the Company reduced its minimum liability for the Company's pension plans by $15 million, primarily as a result of the plans' asset performance. The Company contributed $19 million and $7 million to the Company's U.S. and Canadian qualified pension plans, respectively in 2005.

Excluding the present value of operating leases, the Company's cash, cash equivalents and short-term investments, net of debt and capital lease obligations, increased to $127 million at January 29, 2005 from $113 million at January 31, 2004. The Company increased debt and capital lease obligations by $25 million while increasing cash, cash equivalents and short-term investments by $44 million. This improvement was offset by an increase of $306 million in the present value of operating leases primarily related to the Footaction acquisition and additional lease renewals entered into during 2004. Including the present value of operating leases, the Company's net debt capitalization percent improved 2.9 percentage points in 2004. Total capitalization increased by $742 million in 2004, which was primarily attributable to an increase in shareholders' equity. The increase in shareholders' equity relates to net income of $293 million in 2004, an increase of $147 million resulting from the conversion of $150 million subordinated notes to equity, net of unamortized deferred issuance costs, $49 million related to employee stock plans, and an increase of $19 million in the foreign exchange currency translation adjustment, primarily related to the strength of the euro. The Company declared and paid dividends totaling $39 million during 2004. The Company also recorded an increase of $14 million to the minimum liability for the Company's pension plans during 2004. This increase was primarily a result of the 40 basis point decrease in the discount rate used to calculate present value of the obligations as of January 29, 2005, offset, in part, by an increase in the plans' asset performance. The Company contributed $44 million and $6 million to the Company's U.S. and Canadian qualified pension plans, respectively, in February 2004 and an additional $56 million to the Company's U.S. qualified pension plan in September 2004, in advance of ERISA requirements.

Contractual Obligations and Commitments

The following tables represent the scheduled maturities of the Company's contractual cash obligations and other commercial commitments as of January 28, 2006:

Contractual Cash Obligations	Total	Payments Due by Period: Less than 1 Year	2 – 3 Years	3 – 5 Years	After 5 Years
			(in millions)		
Long-term debt (1)	$ 311	$ —	$ 52	$ 88	$171
Operating leases	2,600	454	782	561	803
Capital lease obligations	15	1	14	—	—
Other long-term liabilities (2)	—	—	—	—	—
Total contractual cash obligations	$2,926	$455	$848	$649	$974

(1) The amounts presented above represent the contractual maturities of the Company's long-term debt, excluding interest. Additional information is included in the "Long-Term Debt and Obligations under Capital Leases" footnote under "Item 8. Consolidated Financial Statements and Supplementary Data."

(2) The Company's other liabilities in the Consolidated Balance Sheet as of January 28, 2006 primarily comprise pension and postretirement benefits, deferred rent liability, income taxes, workers' compensation and general liability reserves and various other accruals. These liabilities have been excluded from the above table as the timing and/or amount of any cash payment is uncertain. The timing of the remaining amounts that are known have not been included as they are minimal and not useful to the presentation. Additional information on the balance sheet caption is included in the "Other Liabilities" footnote under "Item 8. Consolidated Financial Statements and Supplementary Data."

Other Commercial Commitments	Total Amounts Committed	Amount of Commitment Expiration by Period: Less than 1 Year	1 – 3 Years	3 – 5 Years	After 5 Years
			(in millions)		
Line of credit	$ 186	$ —	$—	$186	$—
Stand-by letters of credit	14	—	—	14	—
Purchase commitments (3)	1,733	1,726	6	1	—
Other (4)	60	28	23	9	—
Total commercial commitments	$1,993	$1,754	$29	$210	$—

(3) Represents open purchase orders, as well as minimum required purchases under merchandise contractual agreements, at January 28, 2006. The Company is obligated under the terms of purchase orders; however, the Company is generally able to renegotiate the timing and quantity of these orders with certain vendors in response to shifts in consumer preferences.

(4) Represents payments required by non-merchandise purchase agreements and minimum royalty requirements. Effective March 31, 2006, the Company terminated its agreement with the NFL.

The Company does not have any off-balance sheet financing, other than operating leases entered into in the normal course of business as disclosed above, or unconsolidated special purpose entities. The Company does not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, including variable interest entities. The Company's policy prohibits the use of derivatives for which there is no underlying exposure.

In connection with the sale of various businesses and assets, the Company may be obligated for certain lease commitments transferred to third parties and pursuant to certain normal representations, warranties, or indemnifications entered into with the purchasers of such businesses or assets. Although the maximum potential amounts for such obligations cannot be readily determined, management believes that the resolution of such contingencies will not significantly affect the Company's consolidated financial position, liquidity, or results of operations. The Company is also operating certain stores for which lease agreements are in the process of being negotiated with landlords. Although there is no contractual commitment to make these payments, it is likely that leases will be executed.

Critical Accounting Policies

Management's responsibility for integrity and objectivity in the preparation and presentation of the Company's financial statements requires diligent application of appropriate accounting policies. Generally, the Company's accounting policies and methods are those specifically required by U.S. generally accepted accounting principles ("GAAP"). Included in the "Summary of Significant Accounting Policies" footnote in "Item 8. Consolidated Financial Statements and Supplementary Data" is a summary of the Company's most significant accounting policies. In some cases, management is required to calculate amounts based on estimates for matters that are inherently uncertain. The Company believes the following to be the most critical of those accounting policies that necessitate subjective judgments.

Merchandise Inventories

Merchandise inventories for the Company's Athletic Stores are valued at the lower of cost or market using the retail inventory method. The retail inventory method ("RIM") is commonly used by retail companies to value inventories at cost and calculate gross margins due to its practicality. Under the retail method, cost is determined by applying a cost-to-retail percentage across groupings of similar items, known as departments. The cost-to-retail percentage is applied to ending inventory at its current owned retail valuation to determine the cost of ending inventory on a department basis. The RIM is a system of averages that requires management's estimates and assumptions regarding markups, markdowns and shrink, among others, and as such, could result in distortions of inventory amounts. Significant judgment is required for these estimates and assumptions, as well as to differentiate between promotional and other markdowns that may be required to correctly reflect merchandise inventories at the lower of cost or market. The failure to take permanent markdowns on a timely basis may result in an overstatement of cost under the retail inventory method. The decision to take permanent markdowns includes many factors, including the current environment, inventory levels and the age of the item. Management believes this method and its related assumptions, which have been consistently applied, to be reasonable.

Vendor Reimbursements

In the normal course of business, the Company receives allowances from its vendors for markdowns taken. Vendor allowances are recognized as a reduction in cost of sales in the period in which the markdowns are taken. The effect of vendor allowances on gross margin, as a percentage of sales, as compared with the corresponding prior year period was not significant. The Company also has volume-related agreements with certain vendors, under which it receives rebates based on fixed percentages of cost purchases. These volume-related rebates are recorded in cost of sales when the product is sold and they contributed 10 basis points to the 2005 gross margin rate.

The Company receives support from some of its vendors in the form of reimbursements for cooperative advertising and catalog costs for the launch and promotion of certain products. The reimbursements are agreed upon with vendors for specific advertising campaigns and catalogs. Cooperative income, to the extent that they reimburse specific, incremental and identifiable costs incurred to date, are recorded in SG&A in the same period as the associated expenses are incurred. Reimbursements received that are in excess of specific, incremental and identifiable costs incurred to date are recognized as a reduction to the cost of merchandise and are reflected in cost of sales as the merchandise is sold. Cooperative reimbursements amounted to approximately 27 percent of total advertising costs in 2005 and approximately 9 percent of catalog costs in 2005.

Impairment of Long-Lived Assets

In accordance with SFAS No. 144, 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 exists, a triggering event, comprises measurable operating performance criteria 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. The calculation of fair value of long-lived assets is based on estimated expected discounted future cash flows by store, which is generally measured by discounting the expected future cash flows at the Company's weighted-average cost of capital. Management believes its policy is reasonable and is consistently applied. Future expected cash flows are based upon estimates that, if not achieved, may result in significantly different results. Long-lived tangible assets and intangible assets with finite lives primarily include property and equipment and intangible lease acquisition costs.

The Company is required to perform an impairment review of its goodwill, at least annually. The Company has chosen to perform this review at the beginning of each fiscal year, and it is done in a two-step approach. The initial step requires that the carrying value of each reporting unit be compared with its estimated fair value. The second step — to evaluate goodwill of a reporting unit for impairment — is only required if the carrying value of that reporting unit exceeds its estimated fair value. The fair value of each of the Company's reporting units exceeded its carrying value as of the beginning of the year. The Company used a combination of a discounted cash flow approach and market-based approach to determine the fair value of a reporting unit. The latter requires judgment and uses one or more methods to compare the reporting unit with similar businesses, business ownership interests or securities that have been sold.

Pension and Postretirement Liabilities

The Company determines its obligations for pension and postretirement liabilities based upon assumptions related to discount rates, expected long-term rates of return on invested plan assets, salary increases, age and mortality among others. Management reviews all assumptions annually with its independent actuaries, taking into consideration existing and future economic conditions and the Company's intentions with regard to the plans. Management believes that its estimates for 2005, as disclosed in "Item 8. Consolidated Financial Statements and Supplementary Data," to be reasonable. The expected long-term rate of return on invested plan assets is a component of pension expense and the rate is based on the plans' weighted-average target asset allocation of 64 percent equity securities and 36 percent fixed income investments, as well as historical and future expected performance of those assets. The target asset allocation is selected to obtain an investment return that is sufficient to cover the expected benefit payments based on the timing of settlements and to reduce future contributions by the Company. The Company's common stock represented approximately 2 percent of the total pension plans' assets at January 28, 2006. A decrease of 50 basis points in the weighted-average expected long-term rate of return would have increased 2005 pension expense by approximately $3 million. The actual return on plan assets in a given year may differ from the expected long-term rate of return and the resulting gain or loss is deferred and amortized into the plans' performance over time. An assumed discount rate is used to measure the present value of future cash flow obligations of the plans and the interest cost component of pension expense and postretirement income. The discount rate selected to measure the present value of the Company's benefit obligations as of January 28, 2006 was derived using a cash flow matching method whereby the Company compares the plans' projected payment obligations by year with the corresponding yield on the Citibank Pension Discount Curve. The cash flows are then discounted to their present value and an overall discount rate is determined. A decrease of 50 basis points in the weighted-average discount rate would have increased the accumulated benefit obligation as of January 28, 2006 of the pension plan by approximately $30 million and the effect on the postretirement plan would not be significant. Such a decrease would not have significantly changed 2005 pension expense or postretirement income. There is limited risk to the Company for increases in healthcare costs related to the postretirement plan as new retirees have assumed the full expected costs and existing retirees have assumed all increases in such costs since the beginning of 2001. The additional minimum liability included in shareholders' equity at January 28, 2006 for the pension plans represented the amount by which the accumulated benefit obligation exceeded the fair market value of the plan assets. During 2005, the Company contributed $19 million to the U.S. qualified pension plan and in February 2006 contributed an additional $51 million, these contributions were in advance of ERISA requirements. Also during 2005, the Company contributed $7 million to the Canadian qualified pension plan and in February 2006 contributed an additional $17 million.

The Company expects to record postretirement income of approximately $11 million and pension expense of approximately $1 million in 2006. Pension expense in 2006 reflects the Company's February 2006 contributions. These contributions have reduced 2006 estimated pension expense by approximately $6 million.

Income Taxes

In accordance with GAAP, deferred tax assets are recognized for tax credit and net operating loss carryforwards, reduced by a valuation allowance, which is established when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Management is required to estimate taxable income for future years by taxing jurisdiction and to use its judgment to determine whether or not to record a valuation allowance for part or all of a deferred tax asset. A one percent change in the Company's overall statutory tax rate for 2005 would have resulted in a $4 million change in the carrying value of the net deferred tax asset and a corresponding charge or credit to income tax expense depending on whether such tax rate change was a decrease or increase.

The Company has operations in multiple taxing jurisdictions and is subject to audit in these jurisdictions. Tax audits by their nature are often complex and can require several years to resolve. Accruals of tax contingencies require management to make estimates and judgments with respect to the ultimate outcome of tax audits. Actual results could vary from these estimates.

The Company expects its 2006 effective tax rate to be approximately 37.5 percent. The actual rate will primarily depend upon the percentage of the Company's income earned in the United Stated as compared with international operations.

Discontinued, Repositioning and Restructuring Reserves

The Company exited four business segments as part of its discontinuation and restructuring programs. The final discontinued segment and disposition of the restructured businesses were completed in 2001. In order to identify and calculate the associated costs to exit these businesses, management made assumptions regarding estimates of future liabilities for operating leases and other contractual agreements, the net realizable value of assets held for sale or disposal and the fair value of non-cash consideration received. The Company has settled the majority of these liabilities and the remaining activity relates to the disposition of the residual lease liabilities.

As a result of achieving divestiture accounting in the fourth quarter of 2002, the Northern Group note was recorded at its fair value. The Company is required to review the collectibility of the note based upon various criteria such as the credit-worthiness of the issuer or a delay in payment of the principal or interest. Future adjustments, if any, to the carrying value of the note will be recorded pursuant to SEC Staff Accounting Bulletin Topic 5:Z:5, "Accounting and Disclosure Regarding Discontinued Operations," which requires changes in the carrying value of assets received as consideration from the disposal of a discontinued operation to be classified within continuing operations. The Company has evaluated the projected performance of the business and will continue to monitor its results during the coming year. At January 28, 2006, CAD$15.5 million remains outstanding on the note, the fair value of which is US$10 million.

The remaining discontinued reserve balances at January 28, 2006 totaled $22 million of which $8 million is expected to be utilized within the next twelve months. The remaining repositioning and restructuring reserves totaled $4 million at January 28, 2006, whereby $1 million is expected to be utilized within the next twelve months.

Disclosure Regarding Forward-Looking Statements

This report, including the Shareholders' Letter, contains forward-looking statements within the meaning of the federal securities laws. All statements, other than statements of historical facts, which address activities, events or developments that the Company expects or anticipates will or may occur in the future, including, but not limited to, such things as future capital expenditures, expansion, strategic plans, dividend payments, stock 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 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), unseasonable weather, economic conditions worldwide, any changes in business, political and economic conditions due to the threat of future terrorist activities in the United States or in other parts of the world and related U.S. military action overseas, the ability of the Company to execute its business plans effectively with regard to each of its business units, risks associated with foreign global sourcing, including political instability, changes in import regulations, and disruptions to transportation services and distribution. 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 7A. Quantitative and Qualitative Disclosures About Market Risk

Information regarding interest rate risk management and foreign exchange risk management is included in the "Financial Instruments and Risk Management" footnote under "Item 8. Consolidated Financial Statements and Supplementary Data."

Item 8. Consolidated Financial Statements and Supplementary Data

MANAGEMENT'S REPORT

The integrity and objectivity of the financial statements and other financial information presented in this annual report are the responsibility of the management of the Company. The financial statements have been prepared in conformity with U.S. generally accepted accounting principles and include, when necessary, amounts based on the best estimates and judgments of management.

The Company maintains a system of internal controls designed to provide reasonable assurance, at appropriate cost, that assets are safeguarded, transactions are executed in accordance with management's authorization and the accounting records provide a reliable basis for the preparation of the financial statements. The system of internal accounting controls is continually reviewed by management and improved and modified as necessary in response to changing business conditions. The Company also maintains an internal audit function to assist management in evaluating and formally reporting on the adequacy and effectiveness of internal accounting controls, policies and procedures.

The Company's financial statements have been audited by KPMG LLP, the Company's independent registered public accounting firm, whose report expresses their opinion with respect to the fairness of the presentation of these statements.

The Audit Committee of the Board of Directors, which comprises solely independent non-management directors who are not officers or employees of the Company, meets regularly with the Company's management, internal auditors, legal counsel and KPMG LLP to review the activities of each group and to satisfy itself that each is properly discharging its responsibility. In addition, the Audit Committee meets on a periodic basis with KPMG LLP, without management's presence, to discuss the audit of the financial statements as well as other auditing and financial reporting matters. The Company's internal auditors and independent registered public accounting firm have direct access to the Audit Committee.

Matthew D. Serra

MATTHEW D. SERRA,
Chairman of the Board,
President and Chief Executive Officer

Robert W. McHugh

ROBERT W. MCHUGH
Senior Vice President and
Chief Financial Officer

March 27, 2006

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Management assessed the effectiveness of the Company's internal control over financial reporting as of January 28, 2006. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on our assessment and those criteria, management believes that the Company maintained effective internal control over financial reporting as of January 28, 2006.

The Company's independent registered public accounting firm has issued their attestation report on management's assessment of the Company's internal control over financial reporting. That report appears in this Annual Report on Form 10-K under the heading, *Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting*.

MATTHEW D. SERRA,
Chairman of the Board,
President and Chief Executive
Officer

ROBERT W. MCHUGH,
Senior Vice President and
Chief Financial Officer

March 27, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of
Foot Locker, Inc.

We have audited the accompanying consolidated balance sheets of Foot Locker, Inc. and subsidiaries as of January 28, 2006 and January 29, 2005, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended January 28, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Foot Locker, Inc. and subsidiaries as of January 28, 2006 and January 29, 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended January 28, 2006, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Foot Locker, Inc.'s internal control over financial reporting as of January 28, 2006, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 27, 2006 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP

New York, New York
March 27, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors and Shareholders of
Foot Locker, Inc.

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Foot Locker, Inc. maintained effective internal control over financial reporting as of January 28, 2006, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Foot Locker, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Foot Locker, Inc. maintained effective internal control over financial reporting as of January 28, 2006, is fairly stated, in all material respects, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Foot Locker, Inc. maintained, in all material respects, effective internal control over financial reporting as of January 28, 2006, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Foot Locker, Inc. and subsidiaries as of January 28, 2006 and January 29, 2005, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended January 28, 2006, and our report dated March 27, 2006 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

New York, New York
March 27, 2006

CONSOLIDATED STATEMENTS OF OPERATIONS

	2005	2004	2003
		(in millions, except per share amounts)	
Sales	$5,653	$5,355	$4,779
Costs and expenses			
Cost of sales	3,944	3,722	3,297
Selling, general and administrative expenses	1,129	1,088	987
Depreciation and amortization	171	154	152
Restructuring charges	—	2	1
Interest expense, net	10	15	18
	5,254	4,981	4,455
Other income	(6)	—	—
	5,248	4,981	4,455
Income from continuing operations before income taxes	405	374	324
Income tax expense	142	119	115
Income from continuing operations	263	255	209
Income (loss) on disposal of discontinued operations, net of income tax benefit of $3, $37, and $4, respectively	1	38	(1)
Cumulative effect of accounting change, net of income tax benefit of $ —	—	—	(1)
Net income	$ 264	$ 293	$ 207
Basic earnings per share:			
Income from continuing operations	$ 1.70	$ 1.69	$ 1.47
Income (loss) from discontinued operations	0.01	0.25	(0.01)
Cumulative effect of accounting change	—	—	—
Net income	$ 1.71	$ 1.94	$ 1.46
Diluted earnings per share:			
Income from continuing operations	$ 1.67	$ 1.64	$ 1.40
Income (loss) from discontinued operations	0.01	0.24	(0.01)
Cumulative effect of accounting change	—	—	—
Net income	$ 1.68	$ 1.88	$ 1.39

See Accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	2005	2004	2003
		(in millions)	
Net income	$264	$293	$207
Other comprehensive income, net of tax			
Foreign currency translation adjustment:			
Translation adjustment arising during the period	(25)	19	31
Cash flow hedges:			
Change in fair value of derivatives, net of income tax	2	(1)	—
Reclassification adjustments, net of income tax	(1)	1	(1)
Net change in cash flow hedges	1	—	(1)
Minimum pension liability adjustment:			
Minimum pension liability adjustment, net of deferred tax expense (benefit) of $10, $(9) and $10 million, respectively	15	(14)	16
Comprehensive income	$255	$298	$253

See Accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

	2005	2004
	(in millions)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 289	$ 225
Short-term investments	298	267
Total cash, cash equivalents and short-term investments	587	492
Merchandise inventories	1,254	1,151
Other current assets	173	189
	2,014	1,832
Property and equipment, net	675	715
Deferred taxes	147	180
Goodwill	263	271
Intangible assets, net	117	135
Other assets	96	104
	$3,312	$3,237
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 361	$ 381
Accrued and other liabilities	305	285
Current portion of long-term debt and obligations under capital leases	51	18
	717	684
Long-term debt and obligations under capital leases	275	347
Other liabilities	293	376
Total liabilities	1,285	1,407
Shareholders' equity	2,027	1,830
	$3,312	$3,237

See Accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	2005		2004		2003	
	Shares	Amount	Shares	Amount	Shares	Amount
	(shares in thousands, amounts in millions)					
Common Stock and Paid-In Capital						
Par value $0.01 per share, 500 million shares authorized						
Issued at beginning of year	156,155	$ 608	144,009	$ 411	141,180	$ 378
Restricted stock issued under stock option and award plans	225	—	400	—	845	—
Forfeitures of restricted stock	—	2	—	2	—	1
Amortization of stock issued under restricted stock option plans	—	6	—	8	—	4
Conversion of convertible debt	—	—	9,490	150	—	—
Reclassification of convertible debt issuance costs	—	—	—	(3)	—	—
Issued under director and employee stock plans, net of tax	900	19	2,256	40	1,984	28
Issued at end of year	157,280	635	156,155	608	144,009	411
Common stock in treasury at beginning of year	(64)	(2)	(57)	(1)	(105)	(1)
Reissued under employee stock plans	90	2	260	5	152	1
Restricted stock issued under stock option and award plans	—	—	—	—	—	—
Forfeitures/cancellations of restricted stock	(135)	(2)	(100)	(2)	(80)	(1)
Shares of common stock used to satisfy tax withholding obligations	(49)	(1)	(137)	(3)	—	—
Stock repurchases	(1,590)	(35)	—	—	—	—
Exchange of options	(28)	—	(30)	(1)	(24)	—
Common stock in treasury at end of year	(1,776)	(38)	(64)	(2)	(57)	(1)
	155,504	597	156,091	606	143,952	410
Retained Earnings						
Balance at beginning of year		1,386		1,132		946
Net income		264		293		207
Cash dividends declared on common stock $0.32, $0.26 and $0.15 per share, respectively		(49)		(39)		(21)
Balance at end of year		1,601		1,386		1,132
Accumulated Other Comprehensive Loss						
Foreign Currency Translation Adjustment						
Balance at beginning of year		35		16		(15)
Translation adjustment arising during the period		(25)		19		31
Balance at end of year		10		35		16
Cash Flow Hedges						
Balance at beginning of year		(1)		(1)		—
Change during year, net of tax		1		—		(1)
Balance at end of year		—		(1)		(1)
Minimum Pension Liability Adjustment						
Balance at beginning of year		(196)		(182)		(198)
Change during year, net of tax		15		(14)		16
Balance at end of year		(181)		(196)		(182)
Total Accumulated Other Comprehensive Loss		(171)		(162)		(167)
Total Shareholders' Equity		$2,027		$1,830		$1,375

See Accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	2005	2004	2003
		(in millions)	
From Operating Activities			
Net income	$ 264	$ 293	$ 207
Adjustments to reconcile net income to net cash provided by operating activities of continuing operations:			
(Income) loss on disposal of discontinued operations, net of tax	(1)	(38)	1
Restructuring charges	—	2	1
Cumulative effect of accounting change, net of tax	—	—	1
Depreciation and amortization	171	154	152
Restricted stock compensation expense	6	8	4
Tax benefit on stock compensation	3	10	2
Deferred income taxes	24	50	(5)
Change in assets and liabilities:			
Merchandise inventories	(111)	(183)	(63)
Accounts payable and other accruals	14	157	(17)
Repositioning and restructuring reserves	—	(1)	(1)
Pension contributions	(26)	(106)	(50)
Income taxes	(8)	—	9
Other, net	18	(57)	23
Net cash provided by operating activities of continuing operations	354	289	264
From Investing Activities			
Acquisitions	1	(242)	—
Gain from insurance recoveries	3	—	—
Purchases of short-term investments	(2,798)	(2,884)	(1,546)
Sales of short-term investments	2,767	2,875	1,440
Lease acquisition costs	(8)	(17)	(15)
Capital expenditures	(155)	(156)	(144)
Premiums paid on foreign currency option contracts	(3)	—	—
Proceeds from foreign currency option contracts	6	—	—
Net cash used in investing activities of continuing operations	(187)	(424)	(265)
From Financing Activities			
Debt issuance costs	—	(2)	—
(Reduction) increase in long-term debt	(35)	175	(19)
Dividends paid on common stock	(49)	(39)	(21)
Issuance of common stock	12	28	26
Treasury stock reissued under employee stock plans	2	5	1
Purchase of treasury shares	(35)	—	—
Net cash (used in) provided by financing activities of continuing operations	(105)	167	(13)
Net Cash Provided by operating activities of Discontinued Operations (revised — note 1)	—	1	7
Effect of Exchange Rate Fluctuations on Cash and Cash Equivalents	2	2	(8)
Net Change in Cash and Cash Equivalents	64	35	(15)
Cash and Cash Equivalents at Beginning of Year	225	190	205
Cash and Cash Equivalents at End of Year	$ 289	$ 225	$ 190
Cash Paid During the Year:			
Interest	$ 20	$ 23	$ 25
Income taxes	$ 93	$ 121	$ 77
Non-cash Financing Activities:			
Common stock issued upon conversion of convertible debt	$ —	$ 150	$ —
Debt issuance costs reclassified to equity upon conversion of convertible debt	$ —	$ 3	$ —

See Accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of Foot Locker, Inc. and its domestic and international subsidiaries (the "Company"), all of which are wholly owned. All significant intercompany amounts have been eliminated. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Reporting Year

The reporting period for the Company is the Saturday closest to the last day in January. Fiscal years 2005, 2004 and 2003 represented the 52 weeks ended January 28, 2006, January 29, 2005 and January 31, 2004, respectively. References to years in this annual report relate to fiscal years rather than calendar years.

Revenue Recognition

Revenue from retail stores is recognized at the point of sale when the product is delivered to customers. Revenue from Internet and catalog sales is recognized when the product is shipped to customers. Sales include shipping and handling fees for all periods presented. Retail sales include merchandise, net of returns and exclude all taxes. The Company recognizes revenue, including gift card sales and layaway sales, in accordance with SEC Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements," as amended by SAB No. 104, "Revenue Recognition." Revenue from gift card sales is recorded when the gift cards are redeemed. Unredeemed gift cards are recorded as a current liability. Revenue from layaway sales is recognized when the customer receives the product, rather than when the initial deposit is paid.

Statement of Cash Flows

The Company has selected to present the operations of the discontinued business as one line in the Consolidated Statements of Cash Flows. For all the periods presented this caption includes only operating activities.

Store Pre-Opening and Closing Costs

Store pre-opening costs are charged to expense as incurred. In the event a store is closed before its lease has expired, the estimated post-closing lease exit costs, less the fair market value of sublease rental income, is provided for once the store ceases to be used, in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities."

Advertising Costs and Sales Promotion

Advertising and sales promotion costs are expensed at the time the advertising or promotion takes place, net of reimbursements for cooperative advertising. Cooperative advertising reimbursements earned for the launch and promotion of certain products is agreed upon with vendors and is recorded in the same period as the associated expense is incurred. In accordance with EITF 02-16, "Accounting by a Reseller for Cash Consideration from a Vendor," the Company accounts for reimbursements received in excess of expenses incurred related to specific, incremental advertising, as a reduction to the cost of merchandise and is reflected in cost of sales as the merchandise is sold.

Advertising costs, which are included as a component of selling, general and administrative expenses, net of reimbursements for cooperative advertising, were as follows:

	2005	2004	2003
		(in millions)	
Advertising expenses	$ 99.0	$102.5	$ 97.5
Cooperative advertising reimbursements	(21.2)	(24.8)	(23.4)
Net advertising expense	$ 77.8	$ 77.7	$ 74.1

Catalog Costs

Catalog costs, which primarily comprise paper, printing, and postage, are capitalized and amortized over the expected customer response period to each catalog, generally 90 days. Cooperative reimbursements earned for the promotion of certain products is agreed upon with vendors and is recorded in the same period as the associated catalog expenses are amortized. Prepaid catalog costs totaled $3.0 million and $3.5 million at January 28, 2006 and January 29, 2005, respectively.

Catalog costs, which are included as a component of selling, general and administrative expenses, net of reimbursements for cooperative reimbursements, were as follows:

	2005	2004	2003
		(in millions)	
Catalog costs	$48.2	$50.3	$42.4
Cooperative reimbursements	(3.0)	(2.9)	(3.5)
Net catalog expense	$45.2	$47.4	$38.9

Earnings Per Share

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

	2005	2004	2003
		(in millions)	
Income from continuing operations	$ 263	$ 255	$ 209
Effect of Dilution:			
Convertible debt	—	2	5
Income from continuing operations assuming dilution	$ 263	$ 257	$ 214
Weighted-average common shares outstanding	155.1	150.9	141.6
Effect of Dilution:			
Stock options and awards	2.5	3.0	1.8
Convertible debt	—	3.2	9.5
Weighted-average common shares outstanding assuming dilution	157.6	157.1	152.9

Options to purchase 2.2 million, 1.5 million and 3.6 million shares of common stock as of January 28, 2006, January 29, 2005, and January 31, 2004 respectively, were not included in the computations because the exercise price of the options was greater than the average market price of the common shares and, therefore, the effect of their inclusion would be antidilutive.

Stock-Based Compensation

The Company accounts for stock-based compensation plans in accordance with the intrinsic-value based method permitted by SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"). This method has not resulted in compensation cost for stock options and shares purchased under employee stock purchase plans. No compensation expense for employee stock options is reflected in net income, as all stock options granted under those plans had an exercise price not less than the quoted market price at the date of grant. The market value at date of grant of restricted stock is recorded as compensation expense over the period of vesting.

In March 2005, the SEC issued Staff Accounting Bulletin (SAB) No.107 to provide supplemental guidance in adopting SFAS No.123 (R), "Share-Based Payment" ("SFAS No. 123(R)"). The bulletin provides guidance in accounting for share-based transactions with non-employees, valuation methods, the classification of compensation expense, accounting for the income tax effects of share-based payments, and disclosures in Management's Discussion and Analysis subsequent to the adoption of SFAS No. 123 (R). We are evaluating this guidance in conjunction with the adoption of SFAS No. 123 (R) and do not expect that the bulletin will have a material effect on the results of operations or financial position.

On April 14, 2005, the Securities and Exchange Commission issued a ruling that amended the effective date for SFAS No. 123(R). The Company will adopt SFAS No. 123(R) effective January 29, 2006 using the modified prospective method, whereby compensation expense is recognized for all awards granted subsequent to the effective date of this statement, as well as for the unvested portion of awards outstanding as of the effective date. The Company is currently evaluating the impact SFAS No. 123(R), however, based upon preliminary analysis an additional \$6–\$8 million, or \$0.03–\$0.05 per diluted share, of compensation expense will be recorded during the fiscal year ending February 3, 2007 as a result of this new accounting standard. This estimate is based upon many factors such as the market value and the amount of share-based payments granted in future periods.

On October 18, 2005, the FASB issued FSP No. SFAS 123(R)-2, "Practical Accommodation to the Application of Grant Date as Defined in FASB Statement No. 123(R)," to provide guidance on determining the grant date for an award as defined in SFAS No. 123(R). This FSP stipulates that assuming all other criteria in the grant date definition are met, a mutual understanding of the key terms and conditions of an award to an individual employee is presumed to exist upon the award's approval in accordance with the relevant corporate governance requirements, provided that the key terms and conditions of an award (a) cannot be negotiated by the recipient with the employer because the award is a unilateral grant, and (b) are expected to be communicated to an individual recipient within a relatively short time period from the date of approval.

The following table illustrates the effect on net income and earnings per share as if the Company had applied the fair value recognition provisions of SFAS No. 123 to measure stock-based compensation expense:

	2005	2004	2003
		(in millions, except per share amounts)	
Net income:			
As reported	\$ 264	\$ 293	\$ 207
Compensation expense included in reported net income, net of income tax benefit	4	5	2
Total compensation expense under fair value method for all awards, net of income tax benefit	(9)	(13)	(7)
Pro forma	\$ 259	\$ 285	\$ 202
Basic earnings per share:			
As reported	\$1.71	\$1.94	\$1.46
Pro forma	\$1.67	\$1.89	\$1.43
Diluted earnings per share:			
As reported	\$1.68	\$1.88	\$1.39
Pro forma	\$1.64	\$1.83	\$1.36

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less including commercial paper and money market funds to be cash equivalents. Amounts due from third party credit card processors for the settlement of debit and credit cards are included as cash equivalents as they are generally collected within three business days. Cash equivalents at January 28, 2006, and January 29, 2005 were \$237 million and \$166 million, respectively.

Short-Term Investments

The Company accounts for its short-term investments in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." At January 28, 2006, all of the Company's investments were classified as available for sale, and accordingly are reported at fair value. Short-term investments comprise auction rate securities. Auction rate securities are perpetual preferred or long-dated securities whose dividend/coupon resets periodically through a Dutch auction process. A Dutch auction is a competitive bidding process designed to determine a rate for the next term, such that all sellers sell at par and all buyers buy at par. Accordingly, there were no realized or unrealized gains or losses for any of the periods presented.

Merchandise Inventories and Cost of Sales

Merchandise inventories for the Company's Athletic Stores are valued at the lower of cost or market using the retail inventory method. Cost for retail stores is determined on the last-in, first-out (LIFO) basis for domestic inventories and on the first-in, first-out (FIFO) basis for international inventories. Merchandise inventories of the Direct-to-Customers business are valued at the lower of cost or market using weighted-average cost, which approximates FIFO. Transportation, distribution center and sourcing costs are capitalized in merchandise inventories.

Cost of sales is comprised of the cost of merchandise, occupancy, buyers' compensation and shipping and handling costs. The cost of merchandise is recorded net of amounts received from vendors for damaged product returns, markdown allowances and volume rebates as well as cooperative advertising reimbursements received in excess of specific, incremental advertising expenses. Occupancy reflects the amortization of amounts received from landlords for tenant improvements.

Property and Equipment

Property and equipment are recorded at cost, less accumulated depreciation and amortization. Significant additions and improvements to property and equipment are capitalized. Maintenance and repairs are charged to current operations as incurred. Major renewals or replacements that substantially extend the useful life of an asset are capitalized and depreciated. Owned property and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets: maximum of 50 years for buildings and 3 to 10 years for furniture, fixtures and equipment. Property and equipment under capital leases and improvements to leased premises are generally amortized on a straight-line basis over the shorter of the estimated useful life of the asset or the remaining lease term. Capitalized software reflects certain costs related to software developed for internal use that are capitalized and amortized. After substantial completion of the project, the costs are amortized on a straight-line basis over a 2 to 7 year period. Capitalized software, net of accumulated amortization, is included in property and equipment and was $39 million at January 28, 2006 and $50 million at January 29, 2005.

Recoverability of Long-Lived Assets

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"), an impairment loss is recognized whenever events or changes in circumstances indicate that the carrying amounts of long-lived tangible and intangible assets with finite lives may not be recoverable. Assets are grouped and evaluated at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. The Company has identified this lowest level to be individual stores. The Company considers historical performance and future estimated results in its evaluation of potential impairment and then 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 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 generally measured by discounting expected future cash flows at the Company's weighted-average cost of capital. The Company estimates fair value based on the best information available using estimates, judgments and projections as considered necessary.

Goodwill and Intangible Assets

The Company accounts for goodwill and other intangibles in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," which requires that goodwill and intangible assets with indefinite lives be reviewed for impairment if impairment indicators arise and, at a minimum, annually. The Company performs its annual impairment review as of the beginning of each fiscal year. The fair value of each reporting unit evaluated as of the beginning of each year, determined using a combination of market and discounted cash flow approaches, exceeded the carrying value of each respective reporting unit. Separable intangible assets that are deemed to have finite lives will continue to be amortized over their estimated useful lives. Intangible assets with finite lives primarily reflect lease acquisition costs and are amortized over the lease term.

Derivative Financial Instruments

All derivative financial instruments are recorded in the Consolidated Balance Sheets at their fair values. Changes in fair values of derivatives are recorded each period in earnings, other comprehensive gain or loss or as a basis adjustment to the underlying hedged item, depending on whether a derivative is designated and effective as part of a hedge transaction and, if it is, the type of hedge transaction. The effective portion of the gain or loss on the hedging derivative instrument is reported as a component of other comprehensive income or as a basis adjustment to the underlying hedged item and reclassified to earnings in the period in which the hedged item affects earnings. The effective portion of the gain or loss on hedges of foreign net investments is generally not reclassified to earnings unless the net investment is disposed of. To the extent derivatives do not qualify as hedges, or are ineffective, their changes in fair value are recorded in earnings immediately, which may subject the Company to increased earnings volatility. The changes in the fair value of the Company's hedges of net investments in various foreign subsidiaries is computed using the spot method.

Fair Value of Financial Instruments

The fair value of financial instruments is determined by reference to various market data and other valuation techniques as appropriate. The carrying value of cash and cash equivalents, short-term investments and other current receivables and payables approximates fair value due to the short-term nature of these assets and liabilities. Quoted market prices of the same or similar instruments are used to determine fair value of long-term debt and forward foreign exchange contracts. Discounted cash flows are used to determine the fair value of long-term investments and notes receivable if quoted market prices on these instruments are unavailable.

Income Taxes

The Company determines its deferred tax provision under the liability method, whereby deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts using presently enacted tax rates. Deferred tax assets are recognized for tax credits and net operating loss carryforwards, reduced by a valuation allowance, which is established when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

A taxing authority may challenge positions that the Company adopted in its income tax filings. Accordingly, the Company may apply different tax treatments for transactions in filing its income tax returns than for income tax financial reporting. The Company regularly assesses its tax position for such transactions and records reserves for those differences when considered necessary.

Provision for U.S. income taxes on undistributed earnings of foreign subsidiaries is made only on those amounts in excess of the funds considered to be permanently reinvested.

Pension and Postretirement Obligations

The discount rate selected to measure the present value of the Company's benefit obligations as of January 28, 2006 was derived using a cash flow matching method whereby the Company compares the plans' projected payment obligations by year with the corresponding yield on the Citibank Pension Discount Curve. The cash flows are then discounted to their present value and an overall discount rate is determined.

Insurance Liabilities

The Company is primarily self-insured for health care, workers' compensation and general liability costs. Accordingly, provisions are made for the Company's actuarially determined estimates of discounted future claim costs for such risks for the aggregate of claims reported and claims incurred but not yet reported. Self-insured liabilities totaled $16 million at January 28, 2006 and $14 million at January 29, 2005. The Company discounts its workers' compensation and general liability using a risk-free interest rate. Imputed interest expense related to these liabilities was $1 million in each of 2005, 2004 and 2003.

Accounting for Leases

The Company recognizes rent expense for operating leases as of the earlier of possession date for store leases or the commencement of the agreement for a non-store lease. Rental expense, inclusive of rent holidays, concessions and tenant allowances are recognized over the lease term on a straight-line basis. Contingent payments based upon sales and future increases determined by inflation related indices cannot be estimated at the inception of the lease and accordingly, are charged to operations as incurred.

Foreign Currency Translation

The functional currency of the Company's international operations is the applicable local currency. The translation of the applicable foreign currency into U.S. dollars is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date and for revenue and expense accounts using the weighted-average rates of exchange prevailing during the year. The unearned gains and losses resulting from such translation are included as a separate component of accumulated other comprehensive loss within shareholders' equity.

Reclassifications

Certain balances in prior years have been reclassified to conform to the presentation adopted in the current year.

Recent Accounting Pronouncements Not Previously Discussed Herein

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs — an amendment of ARB 43, Chapter 4." This Statement amends the guidance to clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges. In addition, this Statement requires that allocation of fixed production overheads to the costs of conversions be based on the normal capacity of the production facilities. The Statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Management does not believe that the effect of the adoption of this Statement will have a material effect on its financial position and results of operations.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets — an amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions." This Statement requires that exchanges should be recorded and measured at the fair value of the assets exchanged, with certain exceptions. The Statement is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Management does not believe that the adoption of this Statement will have a material effect on its financial position and results of operations as the Company does not currently have any exchanges of nonmonetary assets.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections," ("SFAS No. 154"). SFAS No. 154 replaces APB No. 20, "Accounting Changes," and SFAS No. 3, "Reporting Changes in Interim Financial Statements." SFAS No. 154 changes the accounting for, and reporting of, a change in accounting principle. SFAS No. 154 requires retrospective application to the prior period's financial statements of voluntary changes in accounting principle and changes required by new accounting standards when the standard does not include specific transition provisions, unless it is impractical to do so. SFAS No. 154 is effective for accounting changes and corrections of errors in fiscal years beginning after December 15, 2005. Currently, the Company is not aware of any financial impact that the adoption of this Statement will have on our consolidated financial statements.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments." This Statement amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" and provides for simplified accounting for certain hybrid financial instruments by permitting fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation and by eliminating a restriction on the passive derivative instruments that a qualifying special-purpose entity (SPE) may hold. This Statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. Management does not believe that the effect of the adoption of this Statement will have a material effect on its financial position and results of operations.

2 Goodwill

The carrying value of goodwill related to the Athletic Stores segment was $183 million at January 28, 2006 and $191 million at January 29, 2005. The carrying value of goodwill related to the Direct-to-Customers segment was $80 million at January 28, 2006 and January 29, 2005.

The goodwill activity during the fiscal year ended January 28, 2006 represents adjustments of $5 million reducing goodwill relating to the Footaction acquisition as a result of the Company's decision to continue operating a store that the Company had originally intended to close at the acquisition date. Additionally, the Company resolved the remaining Footaction lease related matter and received $1 million return from the escrow account, thereby reducing goodwill. The effect of foreign exchange fluctuations for the fiscal year ended January 28, 2006 reduced goodwill by $2 million, resulting from the decline in the value of the euro in relation to the U.S. dollar.

3 Intangible Assets, net

	2005	2004
	(in millions)	
Intangible assets not subject to amortization	$ 4	$ 4
Intangible assets subject to amortization (net of accumulated amortization of $84 and $70, respectively)	113	131
	$117	$135

Intangible assets not subject to amortization at January 28, 2006, includes $3 million related to the trademark of the 11 stores acquired in the Republic of Ireland. The minimum pension liability required at January 28, 2006 and January 29, 2005, which represented the amount by which the accumulated benefit obligation exceeded the fair market value of U.S. defined benefit plan's assets, was offset by an intangible asset to the extent of previously unrecognized prior service costs of $1 million at both January 28, 2006 and January 29, 2005.

The changes in the carrying amount of intangibles subject to amortization for the year ended January 28, 2006 are as follows:

	2004	Additions	Amortization / Other [1]	2005	Wtd. Avg. Useful Life in Years
			(in millions)		
Finite life intangible assets					
Lease acquisition costs	$102	$ 8	$(22)	$ 88	11.9
Trademark	20	—	(1)	19	20.0
Loyalty program	1	—	(1)	—	2.0
Favorable leases	8	—	(2)	6	3.8
Total	$131	$ 8	$(26)	$113	12.3

(1) Includes effect of foreign currency translation of $8 million primarily related to the decline in the value of the euro in relation to the U.S. dollar.

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

Amortization expense for the intangibles subject to amortization was approximately $18 million, $17 million and $11 million for 2005, 2004 and 2003, respectively. Annual estimated amortization expense for finite life intangible assets is expected to approximate $19 million for 2006, $18 million for 2007, $16 million for 2008, $13 million for 2009 and $12 million for 2010.

4 Segment Information

The Company has determined that its reportable segments are those that are based on its method of internal reporting. As of January 28, 2006, the Company has two reportable segments, Athletic Stores, which sells athletic footwear and apparel through its various retail stores, and Direct-to-Customers, which includes the Company's catalogs and Internet business.

The accounting policies of both segments are the same as those described in the "Summary of Significant Accounting Policies." The Company evaluates performance based on several factors, of which the primary financial measure is division results. Division profit reflects income from continuing operations before income taxes, corporate expense, non-operating income and net interest expense.

Sales

	2005	2004	2003
		(in millions)	
Athletic Stores	$5,272	$4,989	$4,413
Direct-to-Customers	381	366	366
Total sales	$5,653	$5,355	$4,779

Operating Results

	2005	2004	2003
		(in millions)	
Athletic Stores	$419	$420	$363
Direct-to-Customers	48	45	53
	467	465	416
All Other [(1)]	—	2	1
Division profit	467	463	415
Corporate expense [(2)]	58	74	73
Operating profit	409	389	342
Other income [(3)]	(6)	—	—
Interest expense, net	10	15	18
Income from continuing operations before income taxes	$405	$374	$324

(1) 2004 and 2003 include restructuring charges of $2 million and $1 million, respectively.

(2) 2004 includes integration costs of $5 million related to the acquisitions of Footaction and the 11 stores in the Republic of Ireland.

(3) 2005 includes a $3 million gain from insurance recoveries associated with Hurricane Katrina. Additionally, $3 million represents a net gain on foreign currency option contracts that were entered into by the Company to mitigate the effect of fluctuating foreign exchange rates on the reporting of euro dominated earnings.

	Depreciation and Amortization			Capital Expenditures			Total Assets		
	2005	2004	2003	2005	2004	2003	2005	2004	2003
					(in millions)				
Athletic Stores	$141	$126	$123	$137	$139	$126	$2,322	$2,335	$1,739
Direct-to-Customers	6	5	4	6	8	6	196	190	183
	147	131	127	143	147	132	2,518	2,525	1,922
Corporate	24	23	25	12	9	12	794	711	789
Discontinued operations								1	2
Total Company	$171	$154	$152	$155	$156	$144	$3,312	$3,237	$2,713

Sales and long-lived asset information by geographic area as of and for the fiscal years ended January 28, 2006, January 29, 2005 and January 31, 2004 are presented below. Sales are attributed to the country in which the sales originate, which is where the legal subsidiary is domiciled. Long-lived assets reflect property and equipment. The Company's sales in Italy and France represents approximately 39, 40 and 38 percent of the International category's sales for the three year period ended January 28, 2006. No other individual country included in the International category is significant.

Sales

	2005	2004	2003
		(in millions)	
United States	$4,257	$3,982	$3,597
International	1,396	1,373	1,182
Total sales	$5,653	$5,355	$4,779

Long-Lived Assets

	2005	2004	2003
		(in millions)	
United States	$523	$547	$525
International	152	168	143
Total long-lived assets	$675	$715	$668

5 Hurricanes

Hurricanes Katrina, Rita and Wilma adversely affected the Company's third quarter and fourth quarter operations and resulted in the closure of approximately 400 of the Company's retail stores for varying periods of time. As of January 28, 2006, 25 of these stores remain closed. The Company expects to re-open up to 7 of the remaining stores in the early part of 2006 and continues to examine additional potential re-openings with the respective landlords and government agencies.

The hurricanes caused approximately $15 million in property and inventory losses and other costs. The Company recorded a loss of $3 million in the third quarter of 2005 as a component of selling, general and administrative expenses in the Consolidated Statements of Operations which included probable insurance recoveries of $12 million. The Company received $5 million from its insurance carriers in the third quarter of 2005.

In the fourth quarter of 2005, the Company received an additional $10 million from its insurance carriers. As a result the Company recorded a gain of $3 million in the fourth quarter of 2005, which was recorded as a component of other income in the Consolidated Statements of Operations. Additionally, the Company revised its original estimates of inventory losses considering proceeds received from liquidators, resulting in a reversal of $3 million recorded in selling, general and administrative expenses.

6 Short-Term Investments

The Company's auction rate security investments are accounted for as available-for-sale securities. The fair value of all investments approximate their carrying cost as the investments are generally not held for more than 49 days and they are traded at par value. The following represents the composition of the Company's auction rate securities by underlying investment.

	2005	2004
	(in millions)	
Tax exempt municipal bonds	$ 41	$ 50
Taxable bonds	—	40
Equity securities	257	177
	$298	$267

Contractual maturities of the bonds outstanding at January 28, 2006 range from 2018 to 2042.

7 Merchandise Inventories

	2005	2004
	(in millions)	
LIFO inventories	$ 939	$ 856
FIFO inventories	315	295
Total merchandise inventories	$1,254	$1,151

The value of the Company's LIFO inventories, as calculated on a LIFO basis, approximates their value as calculated on a FIFO basis.

8 Other Current Assets

	2005	2004
	(in millions)	
Net receivables	$ 49	$ 47
Prepaid expenses and other current assets	46	47
Prepaid income taxes	49	40
Deferred taxes	28	53
Current portion of Northern Group note receivable	1	1
Assets of discontinued operations	—	1
	$173	$189

9 Property and Equipment, net

	2005	2004
	(in millions)	
Land	$ 3	$ 3
Buildings:		
Owned	31	31
Furniture, fixtures and equipment:		
Owned	1,087	1,072
Leased	15	14
	1,136	1,120
Less: accumulated depreciation	(800)	(755)
	336	365
Alterations to leased and owned buildings, net of accumulated amortization	339	350
	$ 675	$ 715

10 Other Assets

	2005	2004
	(in millions)	
Deferred tax costs	$24	$ 25
Investments and notes receivable	22	22
Northern Group note receivable, net of current portion	9	8
Fair value of derivative contracts	1	2
Other	40	47
	$96	$104

11 Accrued Liabilities

	2005	2004
	(in millions)	
Pension and postretirement benefits	$ 72	$ 30
Incentive bonuses	20	34
Other payroll and payroll related costs, excluding taxes	52	51
Taxes other than income taxes	43	45
Property and equipment	16	22
Gift cards and certificates	25	22
Income taxes payable	3	9
Fair value of derivative contracts	1	3
Current deferred tax liabilities	3	1
Sales return reserve	4	3
Liabilities of discontinued operations	2	2
Current portion of repositioning and restructuring reserves	1	1
Current portion of reserve for discontinued operations	8	7
Other operating costs	55	55
	$305	$285

12 Revolving Credit Facility

At January 28, 2006, the Company had unused domestic lines of credit of $186 million, pursuant to a $200 million unsecured revolving credit agreement. $14 million of the line of credit was committed to support standby letters of credit. These letters of credit are primarily used for insurance programs.

In May 2004, shortly after the Footaction acquisition, the Company amended its revolving credit agreement, thereby extending the maturity date to May 2009 from July 2006. The agreement includes various restrictive financial covenants with which the Company was in compliance on January 28, 2006. Deferred financing fees are amortized over the life of the facility on a straight-line basis, which is comparable to the interest method. The unamortized balance at January 28, 2006 approximates $2.7 million. Interest is determined at the time of borrowing based on variable rates and the Company's fixed charge coverage ratio, as defined in the agreement. The rates range from LIBOR plus 0.875 percent to LIBOR plus 1.625 percent. The quarterly facility fees paid on the unused portion during 2005, which are also based on the Company's fixed charge coverage ratio, ranged from 0.175 percent to 0.25 percent. Quarterly facility fees paid in 2004 ranged from 0.175 percent to 0.25 percent. There were no short-term borrowings during 2005 or 2004.

Interest expense, including facility fees, related to the revolving credit facility was $2 million in both 2005 and 2004 and $3 million in 2003.

13 Long-Term Debt and Obligations under Capital Leases

In 2001, the Company issued $150 million of subordinated convertible notes due 2008, at an interest rate of 5.50 percent. The notes were convertible into the Company's common stock at the option of the holder at a conversion price of $15.806 per share. In 2004, the Company notified The Bank of New York, as Trustee under the indenture, that it intended to redeem its entire $150 million outstanding 5.50 percent convertible subordinated notes. Effective June 4, 2004, all of the convertible subordinated notes were cancelled and approximately 9.5 million new shares of the Company's common stock were issued. The Company reclassified the remaining $3 million of unamortized deferred costs related to the original issuance of the convertible debt to equity as a result of the conversion.

In 2003, the Company purchased and retired $19 million of the $200 million debentures, bringing the total amount retired to date to $27 million.

In May 2004, the Company obtained a 5-year, $175 million amortizing term loan from the bank group participating in its existing revolving credit facility to finance a portion of the purchase price of the Footaction stores. The interest rate on the LIBOR-based, floating-rate loan was 5.568 percent on January 28, 2006 and was 3.875 percent on January 29, 2005. The loan requires minimum principal payments each May, equal to a percentage of the original principal amount of 10 percent in 2005 and 2006, 15 percent in years 2007 and 2008 and 50 percent in year 2009. Closing and upfront fees totaling approximately $1 million were paid for the term loan and these fees are being amortized using the interest rate method as determined by the principal repayment schedule. During 2005, the Company repaid $35 million of its 5-year term loan. This payment was in advance of the originally scheduled payment dates of May 19, 2005 and May 19, 2006 as permitted by the agreement. In February of 2006, the Company repaid an additional $50 million of its 5-year term loan. This payment was in advance of the originally scheduled payment dates of May 19, 2007 and May 19, 2008.

Following is a summary of long-term debt and obligations under capital leases:

	2005	2004
	(in millions)	
8.50% debentures payable 2022	$171	$176
$175 million term loan	140	175
Total long-term debt	311	351
Obligations under capital leases	15	14
	326	365
Less: Current portion	51	18
	$275	$347

Maturities of long-term debt and minimum rent payments under capital leases in future periods are:

	Long-Term Debt	Capital Leases	Total
		(in millions)	
2006	$ 50 (1)	$ 1	$ 51
2007	—	14	14
2008	2	—	2
2009	88	—	88
2010	—	—	—
Thereafter	171	—	171
	311	15	326
Less: Current portion	50	1	51
	$261	$14	$275

(1) Represents the Company's $50 million principal payment on its 5-year term loan that was made in February 2006 and was in advance of the originally scheduled payment dates of May 19, 2007 and May 19, 2008.

The Company has various interest rate swap agreements, which convert $100 million of the 8.50 percent debentures from a fixed interest rate to a variable interest rate. The effect of these swaps resulted in a combined reduction in interest expense of $1 million in 2005, $3 million in 2004, and $4 million in 2003.

The net fair value of the interest rate swaps at January 28, 2006 was a liability $1 million, of which $1 million was included in other assets and $2 million was included in other liabilities. The carrying value of the 8.50 percent debentures was decreased by $1 million for these swaps, which are collectively classified as a fair value hedge. At January 29, 2005, the net fair value of the interest rate swaps was $2 million, and was included in other assets.

Interest expense related to long-term debt and capital lease obligations, including the impact of the interest rate swaps and the amortization of the associated debt issuance costs, and was $20 million in 2005, $19 million in 2004 and $22 million in 2003.

14 Leases

The Company is obligated under operating leases for almost all of its store properties. Some of the store leases contain renewal options with varying terms and conditions. Management expects that in the normal course of business, expiring leases will generally be renewed or, upon making a decision to relocate, replaced by leases on other premises. Operating lease periods generally range from 5 to 10 years. Certain leases provide for additional rent payments based on a percentage of store sales. Rent expense includes real estate taxes, insurance, maintenance, and other costs as required by some of the Company's leases. The present value of operating leases is discounted using various interest rates ranging from 4 percent to 13 percent.

Rent expense consists of the following:

	2005	2004	2003
		(in millions)	
Rent	$630	$605	$532
Contingent rent based on sales	13	11	11
Sublease income	(1)	(1)	(1)
Total rent expense	$642	$615	$542

Future minimum lease payments under non-cancelable operating leases are:

	(in millions)
2006	$ 454
2007	420
2008	362
2009	299
2010	262
Thereafter	803
Total operating lease commitments	$2,600
Present value of operating lease commitments	$1,934

15 Other Liabilities

	2005	2004
	(in millions)	
Pension benefits	$ 42	$130
Postretirement benefits	84	95
Straight-line rent liability	83	77
Income taxes	35	29
Workers' compensation / general liability reserves	12	11
Reserve for discontinued operations	14	11
Repositioning and restructuring reserves	3	3
Fair value of derivatives	2	—
Unfavorable leases	3	3
Other	15	17
	$293	$376

16 Discontinued Operations

On January 23, 2001, the Company announced that it was exiting its 694-store Northern Group segment. During the second quarter of 2001, the Company completed the liquidation of the 324 stores in the United States. On September 28, 2001, the Company completed the stock transfer of the 370 Northern Group stores in Canada, through one of its wholly owned subsidiaries for approximately CAD$59 million (approximately US$38 million), which was paid in the form of a note (the "Note"). Another wholly owned subsidiary of the Company was the assignor of the store leases involved in the transaction and therefore retains potential liability for such leases. The net amount of the assets and liabilities of the former operations was written down to the estimated fair value of the Note. The transaction was accounted for pursuant to SEC Staff Accounting Bulletin Topic 5:E, "Accounting for Divestiture of a Subsidiary or Other Business Operation," as a "transfer of assets and liabilities under contractual arrangement" as no cash proceeds were received and the consideration comprised the Note, the repayment of which was dependent on the future successful operations of the business.

An agreement in principle had been reached during December 2002 to receive CAD$5 million (approximately US$3 million) cash consideration in partial prepayment of the Note and accrued interest, and further, the Company agreed to reduce the face value of the Note to CAD$17.5 million (approximately US$12 million). During the fourth quarter of 2002, circumstances had changed sufficiently such that it became appropriate to recognize the transaction as an accounting divestiture. Accordingly, the Note was recorded in the financial statements at its estimated fair value of CAD$16 million (approximately US$10 million). On May 6, 2003, the amendments to the Note were executed and a cash payment of CAD$5.2 million was received from the purchasers of the Northern Group, representing principal and interest through the date of the amendment. On January 15, 2004, the Company received an additional payment of CAD$1 million, representing a partial repayment of the Note. On August 20, 2004, the Company received a contingent payment of CAD$1 million, which was based upon a certain transaction that occurred. As a result of the settlement of the contingent transaction, the CAD$17.5 million Note was replaced with a new CAD$15.5 million note. The terms of the new note are substantially the same as the May 6, 2003 Note, including the expiration date and interest payment terms.

Future adjustments, if any, to the carrying value of the Note will be recorded pursuant to SEC Staff Accounting Bulletin Topic 5:Z:5, "Accounting and Disclosure Regarding Discontinued Operations," which requires changes in the carrying value of assets received as consideration from the disposal of a discontinued operation to be classified within continuing operations. Interest income will also be recorded within continuing operations. The Company will recognize an impairment loss when, and if, circumstances indicate that the carrying value of the Note may not be recoverable. Such circumstances would include deterioration in the business, as evidenced by significant operating losses incurred by the purchaser or nonpayment of an amount due under the terms of the Note. The purchaser has made all payments required under the terms of the Note, however the business had sustained unexpected operating losses in prior years. During the current year, the operations have improved. The Company has evaluated the projected performance of the business and will continue to monitor its results during the coming year.

At January 28, 2006 and January 29, 2005, US$1million is classified as a current receivable, with the remainder classified as long term within other assets in the accompanying Consolidated Balance Sheets. All scheduled principal and interest payments have been received and in accordance with the terms of the Note.

As indicated above, as the assignor of the Northern Canada leases, the Company remained secondarily liable under these leases. As of January 28, 2006, the Company estimates that its gross contingent lease liability is CAD$19 million (approximately US$16 million). The Company currently estimates the expected value of the lease liability to be approximately US$1 million. The Company believes that, because it is secondarily liable on the leases, it is unlikely that it would be required to make such contingent payments.

During 2003, a charge in the amount of $1 million before-tax was recorded related to the Northern Group discontinuance to cover additional liabilities related to the exiting of the former leased corporate office in excess of the previous estimate. Subsequently in 2003, the Company made a CAD$10 million payment (approximately US$7 million) to the landlord, which released the Company from all future liability related to the lease.

In 1998, the Company exited both its International General Merchandise and Specialty Footwear segments. During 2005, the Company recorded a charge of $2 million to revise estimates on its lease liability for one store in the International General Merchandise segment. During 2004, the Company recorded income of $1 million, after-tax, related to a refund of Canadian customs duties related to certain of the businesses that comprised the Specialty Footwear segment.

In 1997, the Company exited its Domestic General Merchandise segment. In 2002, the successor-assignee of the leases of a former business included in the Domestic General Merchandise segment filed a petition in bankruptcy, and rejected in the bankruptcy proceeding certain leases it originally acquired from a subsidiary of the Company. During 2003, the Company recorded charges totaling $4 million related to claims with regard to certain of these leases, as well as others that have been settled. At January 28, 2006, one of these actions remains unresolved, the court has granted the Company's motion for summary judgment. The landlord is currently appealing the matter.

The major components of the pre-tax losses (gains) on disposal and disposition activity related to the reserves are presented below. The remaining reserve balances as of January 28, 2006 primarily represent lease obligations; $8 million is expected to be utilized within twelve months and the remaining $14 million thereafter.

	2002	2003			2004			2005		
	Balance	Charge/ (Income)	Net Usage*	Balance	Charge/ (Income)	Net Usage*	Balance	Charge/ (Income)	Net Usage*	Balance
					(in millions)					
Northern Group	$ 7	$ 1	$ (6)	$ 2	$—	$ 1	$ 3	$—	$ 2	$ 5
International General Merchandise	7	—	(2)	5	—	—	5	2	1	8
Specialty Footwear	3	—	(1)	2	(1)	1	2	—	(1)	1
Domestic General Merchandise	10	4	(4)	10	—	(2)	8	—	—	8
Total	$27	$ 5	$(13)	$19	$ (1)	$—	$18	$ 2	$ 2	$22

* Net usage includes effect of foreign exchange translation adjustments.

17 Repositioning and Restructuring Reserves

1999 Restructuring

The Company recorded restructuring charges in 1999 for programs to sell or liquidate eight non-core businesses. The restructuring plan also included an accelerated store-closing program in North America and Asia, corporate headcount reduction and a distribution center shutdown. The dispositions of Randy River Canada, Foot Locker Outlets, Colorado, Going to the Game!, Weekend Edition and the store-closing program were essentially completed in 2000. In 2001, the Company completed the sales of The San Francisco Music Box Company ("SFMB") and the assets related to its Burger King and Popeye's franchises. The termination of the Maumelle distribution center lease was completed in 2002.

In connection with the sale of SFMB, the Company remained as an assignor or guarantor of leases of SFMB related to a distribution center and five store locations. In May 2003, SFMB filed a voluntary petition under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the District of Delaware. During July and August 2003, SFMB rejected four of the store leases and the distribution center lease and assumed one of the store leases in the bankruptcy proceedings. During the second quarters of 2003 and 2004, the Company recorded charges of $1 million and $2 million, respectively, primarily related to the distribution center lease. The lease for the distribution center expires January 31, 2010, while the store leases expired on January 31, 2004. As of January 28, 2006, the Company estimates its gross contingent lease liability for the distribution center lease to be approximately $3 million, offset in part by the estimated sublease income of $2 million. The Company entered into a sublease on November 15, 2004 for a significant portion of the distribution center that will expire concurrent with the Company's lease term. In addition, the Company is considering additional sublease offers for the remaining square footage. Accordingly, at January 28, 2006 the reserve balance is $1 million.

1993 Repositioning and 1991 Restructuring

The Company recorded charges in 1993 and in 1991 to reflect the anticipated costs to sell or close under-performing specialty and general merchandise stores in the United States and Canada. As of January 28, 2006 the reserve balance is $3 million.

Total Repositioning and Restructuring Reserves

The components of the pre-tax losses (gains) on restructuring charges and disposition activity related to the reserves are presented below:

	2002	2003			2004			2005		
	Balance	Charge/ (Income)	Net Usage	Balance	Charge/ (Income)	Net Usage	Balance	Charge/ (Income)	Net Usage	Balance
	(in millions)									
Real estate	$2	$ 1	$(1)	$2	$ 2	$(1)	$3	$—	$—	$3
Other disposition costs	1	—	—	1	—	—	1	—	—	1
Total	$3	$ 1	$(1)	$3	$ 2	$(1)	$4	$—	$—	$4

At January 28, 2006, $1 million of the total restructuring reserves is expected to be utilized within the next twelve months and the remaining $3 million thereafter.

18 Income Taxes

Following are the domestic and international components of pre-tax income from continuing operations:

	2005	2004	2003
	(in millions)		
Domestic	$309	$222	$186
International	96	152	138
Total pre-tax income	$405	$374	$324

The income tax provision consists of the following:

	2005	2004	2003
		(in millions)	
Current:			
Federal	$ 72	$ 11	$ 48
State and local	11	6	14
International	35	52	58
Total current tax provision	118	69	120
Deferred:			
Federal	22	43	11
State and local	7	8	(6)
International	(5)	(1)	(10)
Total deferred tax provision	24	50	(5)
Total income tax provision	$142	$119	$115

Provision has been made in the accompanying Consolidated Statements of Operations for additional income taxes applicable to dividends received or expected to be received from international subsidiaries. The amount of unremitted earnings of international subsidiaries, for which no such tax is provided and which is considered to be permanently reinvested in the subsidiaries, totaled $388 million and $327 million at January 28, 2006 and January 29, 2005, respectively.

A reconciliation of the significant differences between the federal statutory income tax rate and the effective income tax rate on pre-tax income from continuing operations is as follows:

	2005	2004	2003
Federal statutory income tax rate	35.0%	35.0%	35.0%
State and local income taxes, net of federal tax benefit	2.8	2.3	2.4
International income taxed at varying rates	0.8	(0.6)	0.5
Foreign tax credit utilization	(3.1)	(2.5)	(1.0)
Increase (decrease) in valuation allowance	(1.5)	0.1	(1.5)
Federal/foreign tax settlements	0.4	(3.3)	—
State and local tax settlements	—	—	(0.2)
Tax exempt obligations	(0.4)	(0.2)	(0.2)
Work opportunity tax credit	(0.2)	(0.2)	(0.1)
Other, net	1.2	1.1	0.6
Effective income tax rate	35.0%	31.7%	35.5%

Items that gave rise to significant portions of the deferred tax accounts are as follows:

	2005	2004
	(in millions)	
Deferred tax assets:		
Tax loss/credit carryforwards	$ 71	$ 89
Employee benefits	75	116
Reserve for discontinued operations	8	5
Repositioning and restructuring reserves	3	3
Property and equipment	108	89
Allowance for returns and doubtful accounts	4	7
Straight-line rent	22	19
Other	19	17
Total deferred tax assets	310	345
Valuation allowance	(123)	(124)
Total deferred tax assets, net	$ 187	$ 221

	2005	2004
	(in millions)	
Deferred tax liabilities:		
Inventories	$ 18	$ 8
Goodwill	12	2
Other	10	1
Total deferred tax liabilities	40	11
Net deferred tax asset	$147	$210
Balance Sheet caption reported in:		
Deferred taxes	$147	$180
Other current assets	28	53
Other current liabilities	(3)	(1)
Other liabilities	(25)	(22)
	$147	$210

The Company operates in multiple taxing jurisdictions and is subject to audit. Audits can involve complex issues and may require an extended period of time to resolve. A taxing authority may challenge positions that the Company has adopted in its income tax filings. Accordingly, the Company may apply different tax treatments for transactions in filing its income tax returns than for income tax financial reporting. The Company regularly assesses its tax position for such transactions and records reserves for those differences.

The Company's U.S. Federal income tax filings have been examined by the Internal Revenue Service (the "IRS") through 2004. The Company participated in the IRS' Compliance Assurance Process ("CAP") for 2005, which is expected to conclude during 2006. The Company has started the Compliance Assurance Process for 2006.

As of January 28, 2006, the Company has a valuation allowance of $123 million to reduce its deferred tax assets to an amount that is more likely than not to be realized. The valuation allowance primarily relates to the deferred tax assets arising from state tax loss carryforwards, tax loss carryforwards of certain foreign operations and capital loss carryforwards and unclaimed tax depreciation of the Canadian operations. The valuation allowance for state tax loss carryforwards decreased, principally due to anticipated expirations of those losses. The valuation allowance for Canadian tax loss carryforwards and tax depreciation decreased as a result of a reorganization of the Company's Canadian operations that increased the amount of deferred tax assets the Company expects to benefit from, offset in part by an increase in the valuation allowance attributable to currency fluctuations and other adjustments.

Based upon the level of historical taxable income and projections for future taxable income over the periods in which the temporary differences are anticipated to reverse, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the valuation allowances at January 28, 2006. However, the amount of the deferred tax asset considered realizable could be adjusted in the future if estimates of taxable income are revised.

At January 28, 2006, the Company's tax loss/credit carryforwards included international operating loss carryforwards with a potential tax benefit of $35 million. Those expiring between 2006 and 2013 total $33 million and those that do not expire total $2 million. The Company also has state net operating loss carryforwards with a potential tax benefit of $25 million, which principally relate to the 16 states where the Company does not file a combined return. These loss carryforwards expire between 2006 and 2025. The Company has Canadian capital loss carryforwards of approximately $11 million that do not expire.

19 Financial Instruments and Risk Management

Foreign Exchange Risk Management — Derivative Holdings Designated as Hedges

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.

For a derivative to qualify as a hedge at inception and throughout the hedged period, the Company formally documents the nature and relationships between the hedging instruments and 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. Additionally, 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 would be recognized in earnings immediately. No such gains or losses were recognized in earnings during 2005 or 2004. 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, the British Pound and the Canadian Dollar. For option and forward foreign exchange 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 and is recognized as a component of cost of sales when the related inventory is sold. Amounts classified to cost of sales related to such contracts were a gain of approximately $2 million in 2005 and a loss of $1 million in 2004. The ineffective portion of gains and losses related to cash flow hedges recorded to earnings in 2005 and 2004 was approximately $1 million in each year. When using a forward contract as a hedging instrument, the Company excludes the time value from the assessment of effectiveness. At each year-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 accumulated other comprehensive loss to be reclassified to earnings within twelve months.

In 2005, the Company hedged a portion of its net investment in its European subsidiaries. The Company entered into a 10-year cross currency swap, creating a euro 100 million long-term liability and a $122 million long-term asset. During the term of this transaction, the Company will remit to and receive from its counterparty interest payments based on rates that are reset monthly equal to one-month EURIBOR and one-month U.S. LIBOR rates, respectively. The Company has designated this hedging instrument as a hedge of the net investment in a foreign subsidiary, and will use the spot rate method of accounting to value changes of the hedging instrument attributable to currency rate fluctuations. As such, adjustments in the fair market value of the hedging instrument due to changes in the spot rate will be recorded in other comprehensive income and are expected to offset changes in the euro-denominated net investment. Amounts recorded to foreign currency translation within accumulated other comprehensive loss will remain there until the net investment is disposed of. At January 28, 2006, the amount recorded to foreign currency translation was not significant. In February 2006, the Company hedged a portion of its net investment in its Canadian subsidiaries. The Company entered into a 10-year cross currency swap, creating a CAD $40 million liability and a $35 million long-term asset. During the term of this transaction, the Company will remit to and receive from its counterparty interest payments based on rates that are reset monthly equal to one-month CAD B.A. and one-month U.S. LIBOR rates, respectively. The Company has designated this hedging instrument as a hedge of the net investment in a foreign subsidiary, and will account for the hedge accordingly.

The fair value of foreign exchange derivative contracts designated as hedges was insignificant at both January 28, 2006 and January 29, 2005.

Foreign Exchange Risk Management — Derivative Holdings Designated as Non-Hedges

The Company mitigates the effect of fluctuating foreign exchange rates on the reporting of foreign currency denominated earnings by entering into a variety of derivative instruments including option currency contracts. These contracts are not designated as hedges and as a result, the changes in the fair value of these financial instruments are charged to the statement of operations immediately. The Company recorded a net gain of approximately $3 million related to foreign option currency contracts designated as non-hedges that settled in the second quarter of 2005.

The Company also enters into certain forward foreign exchange contracts to hedge intercompany foreign-currency denominated transactions. In 2005, the Company recorded gains of approximately $3 million in selling, general and administrative expenses to reflect the fair value of these contracts. These gains were offset by the foreign exchange losses on the revaluation of the underlying assets or liabilities.

The fair value of foreign exchange derivative contracts designated as non-hedges was included as an addition to accrued liabilities of $1 million at January 28, 2006 and $3 million at January 29, 2005.

Foreign Currency Exchange Rates

The table below presents the fair value, notional amounts, and weighted-average exchange rates of foreign exchange forward and option contracts outstanding at January 28, 2006.

	Fair Value (US in millions)	Contract Value (US in millions)	Weighted-Average Exchange Rate
Inventory			
Buy €/Sell British £	$—	$ 34	0.6848
Buy British £/Sell €	—	(4)	0.6860
Buy $US/Sell €	—	(8)	1.2187
	—	22	
Earnings			
Buy €/Sell $US	$—	$ 18	1.1500
	—	18	
Intercompany			
Buy €/Sell $US	$ (1)	$ 49	1.2173
Buy $US/Sell €	—	(18)	1.2394
Buy €/Sell British £	—	21	0.6948
Buy British £/Sell €	—	(3)	0.6926
	(1)	49	

Interest Rate Risk Management

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

The fair value of the swaps, included as an addition to other liabilities, was approximately $1 million at January 28, 2006, and the fair value of the swaps, included as an addition to other assets was approximately $2 million at January 29, 2005.

The following table presents the Company's outstanding interest rate derivatives:

	2005	2004	2003
		(in millions)	
Interest Rate Swaps:			
Fixed to Variable ($US) — notional amount	$ 100	$ 100	$ 100
Average pay rate	8.00%	6.46%	5.07%
Average receive rate	8.50%	8.50%	8.50%
Variable to variable ($US) — notional amount	$ 100	$ 100	$ —
Average pay rate	4.82%	2.73%	—%
Average receive rate	4.79%	3.25%	—%

Interest Rates

The Company's major exposure to market risk is to changes in interest rates, primarily in the United States.

The table below presents the fair value of principal cash flows and related weighted-average interest rates by maturity dates, including the effect of the interest rate swaps outstanding at January 28, 2006, of the Company's long-term debt obligations.

	2006	2007	2008	2009	2010	Thereafter	Jan. 28, 2006 Total	Jan. 29, 2005 Total
					($ in millions)			
Long-term debt	$ 50	—	2	88	—	190	$330	$368
Weighted-average interest rate	7.3%	7.3%	7.3%	7.9%	8.2%	8.2%		

Fair Value of Financial Instruments

The carrying value and estimated fair value of long-term debt was $311 million and $330 million, respectively, at January 28, 2006 and $351 million and $368 million, respectively, at January 29, 2005. The carrying value and estimated fair value of long-term investments and notes receivable was $33 million and $33 million, respectively, at January 28, 2006, and $32 million and $33 million, respectively, at January 29, 2005. The carrying values of cash and cash equivalents, short-term investments and other current receivables and payables approximate their fair value.

Business Risk

The retailing business is highly competitive. Price, quality and selection of merchandise, reputation, store location, advertising and customer service are important competitive factors in the Company's business. The Company operates in 20 countries and purchased approximately 75 percent of its merchandise in 2005 from its top 5 vendors. In 2005, the Company purchased approximately 49 percent of its athletic merchandise from one major vendor and approximately 8 percent from another major vendor. The Company generally considers all vendor relations to be satisfactory.

Included in the Company's Consolidated Balance Sheet as of January 28, 2006, are the net assets of the Company's European operations totaling $422 million, which are located in 16 countries, 11 of which have adopted the euro as their functional currency.

20 Retirement Plans and Other Benefits

Pension and Other Postretirement Plans

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

The following tables set forth the plans' changes in benefit obligations and plan assets, funded status and amounts recognized in the Consolidated Balance Sheets, measured at January 28, 2006 and January 29, 2005:

	Pension Benefits		Postretirement Benefits	
	2005	2004	2005	2004
	(in millions)			
Change in benefit obligation				
Benefit obligation at beginning of year	$ 703	$ 697	$ 24	$ 27
Service cost	9	9	—	—
Interest cost	36	39	1	1
Plan participants' contributions	—	—	5	5
Actuarial loss (gain)	—	16	(5)	—
Foreign currency translation adjustments	7	5	—	—
Benefits paid	(66)	(63)	(8)	(9)
Benefit obligation at end of year	$ 689	$ 703	$ 17	$ 24
Change in plan assets				
Fair value of plan assets at beginning of year	$ 551	$ 474		
Actual return on plan assets	60	28		
Employer contribution	29	108		
Foreign currency translation adjustments	5	4		
Benefits paid	(66)	(63)		
Fair value of plan assets at end of year	$ 579	$ 551		
Funded status				
Funded status	$(110)	$(152)	$(17)	$ (24)
Unrecognized prior service cost (benefit)	3	4	(9)	(10)
Unrecognized net (gain) loss	303	324	(60)	(67)
Prepaid asset (accrued liability)	$ 196	$ 176	$(86)	$(101)
Balance Sheet caption reported in:				
Intangible assets	$ 1	$ 1	$ —	$ —
Accrued liabilities	(70)	(24)	(2)	(6)
Other liabilities	(42)	(130)	(84)	(95)
Accumulated other comprehensive loss, pre-tax	307	329	—	—
	$ 196	$ 176	$(86)	$(101)

The change in the additional minimum liability was a decrease of $15 million after-tax in 2005 and an increase of $14 million after-tax in 2004 to accumulated other comprehensive loss.

As of January 28, 2006 and January 29, 2005, the accumulated benefit obligation for all pension plans, totaling $688 million and $702 million, respectively, exceeded plan assets.

The following weighted-average assumptions were used to determine the benefit obligations under the plans:

	Pension Benefits		Postretirement Benefits	
	2005	2004	2005	2004
Discount rate	5.43%	5.50%	5.50%	5.50%
Rate of compensation increase	3.77%	3.79%		

The components of net benefit expense (income) are:

	Pension Benefits			Postretirement Benefits		
	2005	2004	2003	2005	2004	2003
	(in millions)					
Service cost	$ 9	$ 9	$ 8	$ —	$ —	$ —
Interest cost	36	39	43	1	1	2
Expected return on plan assets	(49)	(48)	(46)	—	—	—
Amortization of prior service cost (benefit)	1	1	—	(1)	(1)	(1)
Amortization of net (gain) loss	13	11	9	(12)	(13)	(16)
Net benefit expense (income)	$ 10	$ 12	$ 14	$(12)	$(13)	$(15)

The following weighted-average assumptions were used to determine net benefit cost:

	Pension Benefits			Postretirement Benefits		
	2005	2004	2003	2005	2004	2003
Discount rate	5.50%	5.90%	6.50%	5.50%	5.90%	6.50%
Rate of compensation increase	3.77%	3.79%	3.72%			
Expected long-term rate of return on assets	8.88%	8.89%	8.88%			

The expected long-term rate of return on invested plan assets is based on historical long-term performance and future expected performance of those assets based upon current asset allocations.

Beginning with 2001, new retirees were charged the expected full cost of the medical plan and existing retirees will incur 100 percent of the expected future increase in medical plan costs. Any changes in the health care cost trend rates assumed would not affect the accumulated benefit obligation or net benefit income since retirees will incur 100 percent of such expected future increases.

In December 2003, the United States enacted into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act"). The Act establishes a prescription drug benefit under Medicare, known as "Medicare Part D," and a Federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. In May 2004, the FASB issued FASB Staff Position No. 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" ("FSP 106-2"). FSP 106-2 requires companies to account for the effect of the subsidy on benefits attributable to past service as an actuarial experience gain and as a reduction of the service cost component of net postretirement health care costs for amounts attributable to current service, if the benefit provided is at least actuarially equivalent to Medicare Part D. During 2005, the Company reviewed its retiree health care benefit plans in light of the final regulations for implementing Medicare Part D by the Centers for Medicare and Medicaid Services. The Company has determined that it will qualify for the subsidy, however the effect of the subsidy will not be significant to either the benefit obligation or net benefit income.

The Company's pension plan weighted-average asset allocations at January 28, 2006 and January 29, 2005, by asset category are as follows:

	2005	2004
Asset Category		
Equity securities	62%	63%
Foot Locker, Inc. common stock	2%	2%
Debt securities	34%	33%
Real estate	1%	1%
Other	1%	1%
Total	**100%**	**100%**

The U.S. defined benefit plan held 396,000 shares of Foot Locker, Inc. common stock as of January 28, 2006 and January 29, 2005. Currently, the target composition of the weighted-average plan assets is 64 percent equity and 36 percent fixed income securities, although the Company may alter the targets from time to time depending on market conditions and the funding requirements of the pension plans. The Company believes that plan assets are invested in a prudent manner with an objective of providing a total return that, over the long term, provides sufficient assets to fund benefit obligations, taking into account the Company's expected contributions and the level of risk deemed appropriate. The Company's investment strategy is to utilize asset classes with differing rates of return, volatility and correlation to reduce risk by providing diversification relative to equities. Diversification within asset classes is also utilized to reduce the effect that the return of any single investment may have on the entire portfolio. The Company contributed $68 million to its pension plans in February 2006.

Estimated future benefit payments for each of the next five years and the five years thereafter are as follows:

	Pension Benefits	Postretirement Benefits
	(in millions)	
2006	$ 64	$2
2007	62	3
2008	60	3
2009	60	2
2010	58	2
2011–2015	263	6

Savings Plans

The Company has two qualified savings plans, a 401(k) Plan that is available to employees whose primary place of employment is the U.S., and an 1165 (e) Plan, which began during 2004 that is available to employees whose primary place of employment is in Puerto Rico. Both plans require that the employees have attained at least the age of twenty-one and have completed one year of service consisting of at least 1,000 hours. The savings plans allow eligible employees to contribute up to 25 percent and 10 percent, for the U.S. and Puerto Rico plans, respectively, of their compensation on a pre-tax basis. The Company matches 25 percent of the first 4 percent of the employees' contributions with Company stock and such matching Company contributions are vested incrementally over 5 years for both plans. The charge to operations for the Company's matching contribution for the U.S. plan was $1.6 million, $1.3 million and $1.5 million in 2005, 2004 and 2003, respectively.

21 Stock Plans

In 2003, the Company adopted the 2003 Stock Option and Award Plan (the "2003 Stock Option Plan") and the 2003 Employees Stock Purchase Plan (the "2003 Stock Purchase Plan"). Under the 2003 Stock Option Plan, options, restricted stock, stock appreciation rights (SARs), or other stock-based awards may be granted to officers and other employees at not less than the market price on the date of the grant. Unless a longer or shorter period is established at the time of the option grant, generally, one-third of each stock option grant becomes exercisable on each of the first three anniversary dates of the date of grant. The maximum number of shares of stock reserved for issuance pursuant to the 2003 Stock Option Plan is 4,000,000 shares. The number of shares reserved for issuance as restricted stock and other stock-based awards cannot exceed 1,000,000 shares. The Company adopted the 2003 Stock Purchase Plan whose terms are substantially the same as the 1994 Employees Stock Purchase Plan (the "1994 Stock Purchase Plan"), which expired in June 2004. Under the 2003 Stock Purchase Plan, 3,000,000 shares of common stock became available for purchase beginning June 2005.

Under the Company's 2003 Stock Purchase Plan participating employees are able to contribute up to 10 percent of their annual compensation to acquire shares of common stock at 85 percent of the lower market price on one of two specified dates in each plan year. Of the 3,000,000 shares of common stock authorized for purchase under this plan, 1,191 participating employees purchased 237,353 shares in 2005.

Under the Company's 1998 Stock Option and Award Plan (the "1998 Plan"), options to purchase shares of common stock may be granted to officers and other employees at not less than the market price on the date of grant. Under the plan, the Company may grant officers and other employees, including those at the subsidiary level, stock options, SARs, restricted stock or other stock-based awards. Generally, one-third of each stock option grant becomes exercisable on each of the first three anniversary dates of the date of grant. The options terminate up to 10 years from the date of grant. In 2000, the Company amended the 1998 Plan to provide for awards of up to 12,000,000 shares of the Company's common stock. The number of shares reserved for issuance as restricted stock and other stock-based awards, as amended, cannot exceed 3,000,000 shares.

In addition, options to purchase shares of common stock remain outstanding under the Company's 1995 and 1986 stock option plans. The 1995 Stock Option and Award Plan (the "1995 Plan") is substantially the same as the 1998 Plan. The number of shares authorized for awards under the 1995 Plan is 6,000,000 shares. The number of shares reserved for issuance as restricted stock under the 1995 Plan is limited to 1,500,000 shares. No further awards may be made under the 1995 Plan as of March 8, 2005. Options granted under the 1986 Stock Option Plan (the "1986 Plan") generally become exercisable in two equal installments on the first and the second anniversaries of the date of grant. No further options may be granted under the 1986 Plan.

The 2002 Foot Locker Directors' Stock Plan replaced both the Directors' Stock Plan, which was adopted in 1996, and the Directors' Stock Option Plan, which was adopted in 2000. There are 500,000 shares authorized under the 2002 Plan. No further grants or awards may be made under either of the prior plans. Options granted prior to 2003 have a three-year vesting schedule. Options granted beginning in 2003 become exercisable one year from the date of grant.

When common stock is issued under these plans, the proceeds from options exercised or shares purchased are credited to common stock to the extent of the par value of the shares issued and the excess is credited to additional paid-in capital. When treasury common stock is issued, the difference between the average cost of treasury stock used and the proceeds from options exercised or shares awarded or purchased is charged or credited, as appropriate, to either additional paid-in capital or retained earnings. The tax benefits relating to amounts deductible for federal income tax purposes, which are not included in income for financial reporting purposes, have been credited to additional paid-in capital.

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

	Stock Option Plans			Stock Purchase Plan		
	2005	2004	2003	2005	2004	2003
Weighted-average risk free rate of interest	3.99%	2.57%	2.26%	4.19%	1.33%	1.11%
Expected volatility	28%	33%	37%	25%	32%	31%
Weighted-average expected award life	3.8 years	3.7 years	3.4 years	.7 years	.7 years	.7 years
Dividend yield	1.1%	1.1%	1.2%	—	—	—
Weighted-average fair value	$6.69	$6.51	$2.90	$5.54	$11.44	$14.15

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

The information set forth in the following table covers options granted under the Company's stock option plans:

	2005		2004		2003	
	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
	(in thousands, except prices per share)					
Options outstanding at beginning of year	5,909	$16.69	6,886	$14.73	7,676	$15.18
Granted	1,014	$27.42	1,183	$25.20	1,439	$10.81
Exercised	682	$15.03	1,853	$14.43	1,830	$12.50
Expired or canceled	279	$22.11	307	$19.13	399	$19.55
Options outstanding at end of year	5,962	$18.45	5,909	$16.69	6,886	$14.73
Options exercisable at end of year	4,042	$16.00	3,441	$15.34	4,075	$15.99
Options available for future grant at end of year	5,768		7,464		8,780	

The following table summarizes information about stock options outstanding and exercisable at January 28, 2006:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
	(in thousands, except prices per share)				
$ 4.53 to $10.89	1,012	6.6	$ 9.79	702	$ 9.59
$11.31 to $12.99	1,158	5.0	12.24	1,154	12.24
$13.34 to $16.02	1,047	6.0	15.83	1,043	15.84
$16.19 to $25.37	1,016	4.1	22.93	799	23.15
$25.39 to $27.01	1,032	8.3	25.65	327	25.39
$27.10 to $28.50	697	9.1	28.04	17	28.15
$ 4.53 to $28.50	5,962	6.4	$18.45	4,042	$16.00

22 Restricted Stock

Restricted shares of the Company's common stock may be awarded to certain officers and key employees of the Company. There were 225,000, 330,000, and 845,000 restricted shares of common stock granted in 2005, 2004 and 2003, respectively. In 2005 and 2004, 20,000 and 72,005 restricted stock units, respectively, were granted to certain executives located outside of the United States; each restricted unit represents the right to receive one share of the Company's common stock provided that the vesting conditions are satisfied. The market values of the shares and units at the date of grant amounted to $6.5 million in 2005, $10.2 million in 2004 and $9.8 million in 2003. The market values are recorded within shareholders' equity and are amortized as compensation expense over the related vesting periods. These awards fully vest after the passage of a restriction period, generally three years, except for certain grants in 2005, 2004 and 2003. The Company granted 105,000 shares of restricted stock in 2005, which vest in three equal installments on approximately each of the next three years grant date anniversary, 75,000 shares of restricted stock in 2004, which vest over 13 months and in 2003 granted 200,000 shares of restricted stock that vested 50 percent one year following the date of grant and 50 percent that will vest two years from the date of grant. During 2005, 2004 and 2003, respectively, 176,135, 30,000 and 80,000 restricted shares and units were forfeited. The deferred compensation balance, reflected as a reduction to shareholders' equity, was $6.2 million, $9.0 million and $7.1 million as of January 28, 2006, January 29, 2005 and January 31, 2004, respectively. The Company recorded compensation expense related to restricted shares, net of forfeitures, of $6.1 million in 2005, $8.0 million in 2004 and $4.1 million in 2003.

23 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, as well as litigation incidental to the sale and disposition of businesses that have occurred in past years. These legal proceedings include commercial, intellectual property, customer, and labor-and-employment-related claims, including class action lawsuits in which plaintiffs allege violations by the Company of state wage and hour and other laws. Management does not believe that the outcome of such proceedings would have a material adverse effect on the Company's consolidated financial position, liquidity, or results of operations, taken as a whole.

24 Commitments

In connection with the sale of various businesses and assets, the Company may be obligated for certain lease commitments transferred to third parties and pursuant to certain normal representations, warranties, or indemnifications entered into with the purchasers of such businesses or assets. Although the maximum potential amounts for such obligations cannot be readily determined, management believes that the resolution of such contingencies will not have a material effect on the Company's consolidated financial position, liquidity, or results of operations. The Company is also operating certain stores and making rental payments for which lease agreements are in the process of being negotiated with landlords. Although there is no contractual commitment to make these payments, it is likely that a lease will be executed.

The Company does not have any off-balance sheet financing, other than operating leases entered into in the normal course of business and disclosed above or unconsolidated special purpose entities. The Company does not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, including variable interest entities.

25 Shareholder Information and Market Prices (Unaudited)

Foot Locker, Inc. common stock is listed on The New York Stock Exchange as well as on the böerse-stuttgart stock exchange in Germany and the Elektronische Börse Schweiz (EBS) stock exchange in Switzerland. In addition, the stock is traded on the Cincinnati stock exchange.

As of January 28, 2006, the Company had 24,933 shareholders of record owning 155,503,606 common shares.

Market prices for the Company's common stock were as follows:

	2005		2004	
	High	Low	High	Low
Common Stock				
Quarter				
1st Q	$29.95	$25.88	$27.59	$21.75
2nd Q	27.65	24.31	25.03	19.97
3rd Q	25.37	18.75	24.80	19.98
4th Q	24.07	18.74	27.26	22.75

During 2005, the Company declared quarterly dividends of $0.075 per share during the first, second and third quarters. On November 16, 2005, the Company increased the quarterly dividend per share by 20 percent to $0.09, beginning in the fourth quarter of 2005.

During 2004, the Company declared quarterly dividends of $0.06 per share during the first, second and third quarters. On November 17, 2004, the Company increased the quarterly dividend per share to $0.075, beginning in the fourth quarter of 2004.

26 Quarterly Results (Unaudited)

	1st Q	2nd Q	3rd Q	4th Q	Year
	(in millions, except per share amounts)				
Sales					
2005	$1,377	1,304	1,408	1,564	5,653
2004	1,186	1,268	1,366	1,535	5,355
Gross margin (a)					
2005	$ 418	377	430	484(c)	1,709
2004	361	369	426	477	1,633
Operating profit (b)					
2005	$ 94	71	104	140	409
2004	78	61	117	133	389
Income from continuing operations					
2005	$ 58	44	65	96	263
2004	47	45	74	89	255
Net income					
2005	$ 58	44	66	96	264
2004	48	82	74	89	293
Basic earnings per share:					
2005					
Income from continuing operations	$ 0.37	0.29	0.42	0.62	1.70
Income from discontinued operations	—	—	0.01	—	0.01
Net income	0.37	0.29	0.43	0.62	1.71
2004					
Income from continuing operations	$ 0.33	0.30	0.47	0.58	1.69
Loss from discontinued operations	—	0.25	—	—	0.25
Net income	0.33	0.55	0.47	0.58	1.94
Diluted earnings per share:					
2005					
Income from continuing operations	$ 0.37	0.28	0.41	0.61	1.67
Income from discontinued operations	—	—	0.01	—	0.01
Net income	0.37	0.28	0.42	0.61	1.68
2004					
Income from continuing operations	$ 0.31	0.29	0.47	0.57	1.64
Loss from discontinued operations	—	0.24	—	—	0.24
Net income	0.31	0.53	0.47	0.57	1.88

(a) Gross margin represents sales less cost of sales. Includes the effects of the reclassification of tenant allowances as deferred credits, which are amortized as a reduction of rent expense as a component of costs of sales. Costs of sales was reduced by $1 million in each of the first three quarters of 2004 and by $2 million for the fourth quarter of 2004.

(b) Operating profit represents income from continuing operations before income taxes, interest expense, net and non-operating income.

(c) The fourth quarter of 2005 includes permanent markdowns of $7 million.

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

The selected financial data below should be read in conjunction with the Consolidated Financial Statements and the notes thereto and other information contained elsewhere in this report. All selected financial data have been restated for discontinued operations and the reclassification of tenant allowances as deferred rent credits.

($ in millions, except per share amounts)	2005	2004	2003	2002	2001
Summary of Continuing Operations					
Sales	$5,653	5,355	4,779	4,509	4,379
Gross margin (1)	1,709	1,633	1,482	1,348	1,312
Selling, general and administrative expenses	1,129	1,088	987	928	923
Restructuring charges (income)	—	2	1	(2)	34
Depreciation and amortization (1)	171	154	152	153	158
Interest expense, net	10	15	18	26	24
Other (income) expense	(6)	—	—	(3)	(2)
Income from continuing operations	263	255	209	162	111(3)
Cumulative effect of accounting change (2)	—	—	(1)	—	—
Basic earnings per share from continuing operations	1.70	1.69	1.47	1.15	0.79(3)
Basic earnings per share from cumulative effect of accounting change	—	—	—	—	—
Diluted earnings per share from continuing operations	1.67	1.64	1.40	1.10	0.77(3)
Diluted earnings per share from cumulative effect of accounting change	—	—	—	—	—
Common stock dividends declared	0.32	0.26	0.15	0.03	—
Weighted-average common shares outstanding (in millions)	155.1	150.9	141.6	140.7	139.4
Weighted-average common shares outstanding assuming dilution (in millions)	157.6	157.1	152.9	150.8	146.9
Financial Condition					
Cash, cash equivalents and short-term investments	$ 587	492	448	357	215
Merchandise inventories	1,254	1,151	920	835	793
Property and equipment, net (4)	675	715	668	664	665
Total assets (4)	3,312	3,237	2,713	2,514	2,328
Short-term debt	—	—	—	—	—
Long-term debt and obligations under capital leases	326	365	335	357	399
Total shareholders' equity	2,027	1,830	1,375	1,110	992
Financial Ratios					
Return on equity (ROE)	13.6%	15.9	16.8	15.4	11.1
Operating profit margin	7.2%	7.3	7.2	6.0	4.5
Income from continuing operations as a percentage of sales	4.7%	4.8	4.4	3.6	2.5(3)
Net debt capitalization percent (5)	45.2%	50.4	53.3	58.6	61.1
Net debt capitalization percent (without present value of operating leases) (5)	—	—	—	—	15.6
Current ratio	2.8	2.7	2.8	2.2	2.0
Other Data					
Capital expenditures	$ 155	156	144	150	116
Number of stores at year end	3,921	3,967	3,610	3,625	3,590
Total selling square footage at year end (in millions)	8.71	8.89	7.92	8.04	7.94
Total gross square footage at year end (in millions)	14.48	14.78	13.14	13.22	13.14

(1) Gross margin and depreciation expense include the effects of the reclassification of tenant allowances as deferred credits, which are amortized as a reduction of rent expense as a component of costs of sales. Gross margin was reduced by $5 million in 2004 and 2003, $4 million in 2002 and 2001 and accordingly, depreciation expense was increased by the corresponding amount.

(2) 2003 relates to adoption of SFAS No. 143 "Accounting for Asset Retirement Obligations."

(3) In applying the provisions of EITF 90-16, income from continuing operations for 2001 would have been reclassified to include the results of the Northern Group. Accordingly, income from continuing operations would have been $91 million. As such basic earnings per share would have been $0.65 for fiscal 2001. Diluted earnings per share would have been $0.64 for fiscal 2001. However, upon achieving divestiture accounting in the fourth quarter of 2002, the results would have been reclassified to reflect the results as shown above and as originally reported by the Company.

(4) Property and equipment, net and total assets include the reclassification of tenant allowances as deferred credits, which were previously recorded as a reduction to the cost of property and equipment, and are now classified as part of the deferred rent liability. Property and equipment, net and total assets were increased by $22 million in 2004, $24 million in 2003 and $28 million in each of 2002 and 2001.

(5) Represents total debt, net of cash, cash equivalents and short-term investments and includes the effect of interest rate swaps of $1 million that decreased long-term debt at January 28, 2006, $4 million that increased long-term debt at January 29, 2005 and $1 million that reduced long-term debt at January 31, 2004.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There were no disagreements between the Company and its independent registered public accounting firm on matters of accounting principles or practices.

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure 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 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")) as of January 28, 2006. Based on that evaluation, the Company's CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of January 28, 2006 in alerting them in a timely manner to all material information required to be disclosed in this report.

(b) Management's Annual Report on Internal Control over Financial Reporting.

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as that term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f)). To evaluate the effectiveness of the Company's internal control over financial reporting, the Company uses the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO Framework"). Using the COSO Framework, the Company's management, including the CEO and CFO, evaluated the Company's internal control over financial reporting and concluded that the Company's internal control over financial reporting was effective as of January 28, 2006. KPMG LLP, the independent registered public accounting firm that audits the Company's consolidated financial statements included in this annual report, has issued an attestation report on the Company's assessment of and effectiveness of internal control over financial reporting, which is included herein under the caption "Management's Report on Internal Control over Financial Reporting" in "Item 8. Consolidated Financial Statements and Supplementary Data."

(c) Attestation Report of the Independent Registered Public Accounting Firm.

(d) Changes in Internal Control over Financial Reporting.

During the Company's last fiscal quarter there were no changes in internal control over financial reporting that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART III

Item 10. Directors and Executive Officers of the Company

(a) Directors of the Company

Information relative to directors of the Company is set forth under the section captioned "Election of Directors" in the Proxy Statement and is incorporated herein by reference.

(b) Executive Officers of the Company

Information with respect to executive officers of the Company is set forth immediately following Item 4 in Part I.

(c) Information with respect to compliance with Section 16(a) of the Securities Exchange Act of 1934 is set forth under the section captioned "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement and is incorporated herein by reference.

(d) Information on our audit committee financial expert is contained in the Proxy Statement under the section captioned "Committees of the Board of Directors" and is incorporated herein by reference.

(e) Information about the Code of Business Conduct governing our employees, including our Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer, and the Board of Directors, is set forth under the heading "Code of Business Conduct" under the Corporate Governance Information section of the Proxy Statement and is incorporated herein by reference.

Item 11. Executive Compensation

Information set forth in the Proxy Statement beginning with the section captioned "Directors Compensation and Benefits" through and including the section captioned "Compensation Committee Interlocks and Insider Participation" is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information set forth in the Proxy Statement under the sections captioned "Equity Compensation Plan Information" and "Beneficial Ownership of the Company's Stock" is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

Information set forth in the Proxy Statement under the section captioned "Certain Relationships and Related Transactions" is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

Information about the principal accountant fees and services is set forth under the section captioned "Audit and Non-Audit Fees" in the Proxy Statement and is incorporated herein by reference. Information about the Audit Committee's pre-approval policies and procedures is set forth in the section captioned "Audit Committee Pre-Approval Policies and Procedures" in the Proxy Statement and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1)(a)(2) Financial Statements

The list of financial statements required by this item is set forth in Item 8. "Consolidated Financial Statements and Supplementary Data."

(a)(3) and (c) Exhibits

An index of the exhibits which are required by this item and which are included or incorporated herein by reference in this report appears on pages 59 through 62. The exhibits filed with this report immediately follow the index.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

FOOT LOCKER, INC.

By:

Matthew D. Serra
Chairman of the Board, President and Chief Executive Officer

Date: March 27, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on March 27, 2006, by the following persons on behalf of the Company and in the capacities indicated.

Matthew D. Serra Chairman of the Board, President and Chief Executive Officer	Robert W. McHugh Senior Vice President and Chief Financial Officer
/s/ GIOVANNA CIPRIANO Giovanna Cipriano Vice President and Chief Accounting Officer	/s/ JAMES E. PRESTON James E. Preston Director
/s/ PURDY CRAWFORD Purdy Crawford Director	/s/ DAVID Y. SCHWARTZ David Y. Schwartz Director
/s/ NICHOLAS DIPAOLO Nicholas DiPaolo Director	/s/ CHRISTOPHER A. SINCLAIR Christopher A. Sinclair Director
/s/ ALAN D. FELDMAN Alan D. Feldman Director	/s/ CHERYL NIDO TURPIN Cheryl Nido Turpin Director
/s/ PHILIP H. GEIER JR. Philip H. Geier Jr. Director	/s/ DONA D. YOUNG Dona D. Young Director
/s/ JAROBIN GILBERT JR. Jarobin Gilbert Jr. Director	

FOOT LOCKER, INC.
INDEX OF EXHIBITS REQUIRED
BY ITEM 15 OF FORM 10-K
AND FURNISHED IN ACCORDANCE
WITH ITEM 601 OF REGULATION S-K

Exhibit No. in Item 601 of Regulation S-K	Description
3(i)(a)	Certificate of Incorporation of the Registrant, as filed by the Department of State of the State of New York on April 7, 1989 (incorporated herein by reference to Exhibit 3(i)(a) to the Quarterly Report on Form 10-Q for the quarterly period ended July 26, 1997, filed by the Registrant with the SEC on September 4, 1997 (the "July 26, 1997 Form 10-Q")).
3(i)(b)	Certificates of Amendment of the Certificate of Incorporation of the Registrant, as filed by the Department of State of the State of New York on (a) July 20, 1989, (b) July 24, 1990, (c) July 9, 1997 (incorporated herein by reference to Exhibit 3(i)(b) to the July 26, 1997 Form 10-Q), (d) June 11, 1998 (incorporated herein by reference to Exhibit 4.2(a) of the Registration Statement on Form S-8 (Registration No. 333-62425), and (e) November 1, 2001 (incorporated herein by reference to Exhibit 4.2 to the Registration Statement on Form S-8 (Registration No. 333-74688) previously filed by the Registrant with the SEC).
3(ii)	By-laws of the Registrant, as amended (incorporated herein by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarterly period ended May 5, 2001 (the "May 5, 2001 Form 10-Q"), filed by the Registrant with the SEC on June 13, 2001).
4.1	The rights of holders of the Registrant's equity securities are defined in the Registrant's Certificate of Incorporation, as amended (incorporated herein by reference to (a) Exhibits 3(i)(a) and 3(i)(b) to the July 26, 1997 Form 10-Q, Exhibit 4.2(a) to the Registration Statement on Form S-8 (Registration No. 333-62425) previously filed by the Registrant with the SEC, and Exhibit 4.2 to the Registration Statement on Form S-8 (Registration No. 333-74688) previously filed by the Registrant with the SEC).
4.2	Indenture dated as of October 10, 1991 (incorporated herein by reference to Exhibit 4.1 to the Registration Statement on Form S-3 (Registration No. 33-43334) previously filed by the Registrant with the SEC).
4.3	Form of 8½% Debentures due 2022 (incorporated herein by reference to Exhibit 4 to the Registrant's Form 8-K dated January 16, 1992).
10.1	1986 Foot Locker Stock Option Plan (incorporated herein by reference to Exhibit 10(b) to the Registrant's Annual Report on Form 10-K for the year ended January 28, 1995, filed by the Registrant with the SEC on April 24, 1995 (the "1994 Form 10-K")).
10.2	Amendment to the 1986 Foot Locker Stock Option Plan (incorporated herein by reference to Exhibit 10(a) to the Registrant's Annual Report on Form 10-K for the year ended January 27, 1996, filed by the Registrant with the SEC on April 26, 1996 (the "1995 Form 10-K")).
10.3	Foot Locker 1995 Stock Option and Award Plan (incorporated herein by reference to Exhibit 10(p) to the 1994 Form 10-K).
10.4	Foot Locker 1998 Stock Option and Award Plan (incorporated herein by reference to Exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the year ended January 31, 1998, filed by the Registrant with the SEC on April 21, 1998).

Exhibit No. in Item 601 of Regulation S-K	Description
10.5	Amendment to the Foot Locker 1998 Stock Option and Award Plan (incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the period ended July 29, 2000, filed by the Registrant with the SEC on September 7, 2000 (the "July 29, 2000 Form 10-Q")).
10.6	Executive Supplemental Retirement Plan (incorporated herein by reference to Exhibit 10(d) to the Registration Statement on Form 8-B filed by the Registrant with the SEC on August 7, 1989 (Registration No. 1-10299) (the "8-B Registration Statement")).
10.7	Amendment to the Executive Supplemental Retirement Plan (incorporated herein by reference to Exhibit 10(c)(i) to the 1994 Form 10-K).
10.8	Amendment to the Executive Supplemental Retirement Plan (incorporated herein by reference to Exhibit 10(d)(ii) to the 1995 Form 10-K).
10.9	Supplemental Executive Retirement Plan (incorporated herein by reference to Exhibit 10(e) to the 1995 Form 10-K).
10.10	Amendment to the Supplemental Executive Retirement Plan adopted November 16, 2005.
10.11	Long-Term Incentive Compensation Plan, as amended and restated (incorporated herein by reference to Exhibit 10(f) to the 1995 Form 10-K).
10.12	Annual Incentive Compensation Plan, as amended (incorporated herein by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q for the quarterly period ended August 2, 2003 filed by the Registrant with the SEC on September 15, 2003 (the "August 2, 2003 Form 10-Q")).
10.13	Form of indemnification agreement, as amended (incorporated herein by reference to Exhibit 10(g) to the 8-B Registration Statement).
10.14	Amendment to form of indemnification agreement (incorporated herein by reference to Exhibit 10.5 to the Quarterly Report on Form 10-Q for the quarterly period ended May 5, 2001 filed by the Registrant with the SEC on June 13, 2001 (the "May 5, 2001 Form 10-Q")).
10.15	Foot Locker Voluntary Deferred Compensation Plan (incorporated herein by reference to Exhibit 10(i) to the 1995 Form 10-K).
10.16	Foot Locker Directors Stock Option Plan (incorporated herein by reference to Exhibit 10.1 to the July 29, 2000 Form 10-Q).
10.17	Trust Agreement dated as of November 12, 1987 ("Trust Agreement"), between F.W. Woolworth Co. and The Bank of New York, as amended and assumed by the Registrant (incorporated herein by reference to Exhibit 10(j) to the 8-B Registration Statement).
10.18	Amendment to Trust Agreement made as of April 11, 2001 (incorporated herein by reference to Exhibit 10.4 to May 5, 2001 Form 10-Q).
10.19	Foot Locker Directors' Retirement Plan, as amended (incorporated herein by reference to Exhibit 10(k) to the 8-B Registration Statement).
10.20	Amendments to the Foot Locker Directors' Retirement Plan (incorporated herein by reference to Exhibit 10(c) to the Registrant's Quarterly Report on Form 10-Q for the period ended October 28, 1995, filed by the Registrant with the SEC on December 11, 1995).
10.21	Employment Agreement with Matthew D. Serra dated as of February 9, 2005 (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K dated February 9, 2005 filed by the Registrant with the SEC on February 11, 2005 (the "February 9, 2005 Form 8-K")).

Exhibit No. in Item 601 of Regulation S-K	Description
10.22	Restricted Stock Agreement with Matthew D. Serra dated as of February 2, 2003 (incorporated herein by reference to Exhibit 10.22 to the Registrant's Annual Report on Form 10-K for the year ended February 1, 2003, filed by the Registrant with the SEC on May 19, 2003).
10.23	Restricted Stock Agreement with Matthew D. Serra dated as of September 11, 2003 (incorporated herein by reference to Exhibit 10 to the Quarterly Report on Form 10-Q for the period ended November 1, 2003 filed by the Registrant with the SEC on December 15, 2003).
10.24	Restricted Stock Agreement with Matthew D. Serra dated as of February 18, 2004 (incorporated herein by reference to Exhibit 10 to the Registrant's Quarterly Report on Form 10-Q for the period ended May 1, 2004, filed by the Registrant with the SEC on June 8, 2004).
10.25	Restricted Stock Agreement with Matthew D. Serra dated as of February 9, 2005 (incorporated herein by reference to Exhibit 10.2 to the February 9, 2005 Form 8-K).
10.26	Foot Locker Executive Severance Pay Plan (incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the period ended October 31, 1998 (the "October 31, 1998).
10.27	Form of Senior Executive Employment Agreement (incorporated herein by reference to Exhibit 10.23 to the Registrant's Annual Report on Form 10-K for the year ended January 29, 2000 filed by the Registrant with the SEC on April 21, 2000 (the "1999 Form 10-K")).
10.28	Form of Executive Employment Agreement (incorporated herein by reference to Exhibit 10.24 to the 1999 Form 10-K).
10.29	Foot Locker, Inc. Excess Cash Balance Plan (incorporated herein by reference to Exhibit 10(c) to the 1995 Form 10-K).
10.30	Form of Restricted Stock Agreement (incorporated herein by reference to Exhibit 10.30 to the Registrant's Annual Report on Form 10-K for the year ended January 30, 1999 filed by the Registrant on April 30, 1999 (the "1998 Form 10-K")).
10.31	Fifth Amended and Restated Credit Agreement dated as of April 9, 1997, amended and restated as of May 19, 2004 ("Credit Agreement") (incorporated herein by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the period ended July 31, 2004, filed by the Registrant with the SEC on September 8, 2004).
10.32	Amendment No. 1 to the Credit Agreement (incorporated herein by reference to Exhibit 10.1 to the Form 8-K filed by the Registrant on May 18, 2005).
10.33	Letter of Credit Agreement dated as of March 19, 1999 (incorporated herein by reference to Exhibit 10.35 to the 1998 Form 10-K).
10.34	Foot Locker 2002 Directors Stock Plan, as amended (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K dated February 16, 2005, filed by the Registrant with the SEC on February 18, 2005).
10.35	Foot Locker 2003 Stock Option and Award Plan (incorporated herein by reference to Exhibit 10.2 to the August 2, 2003 Form 10-Q).
10.36	Summary of Changes to Non-Employee Directors' Compensation (incorporated herein by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the period ended October 30, 2004, filed by the Registrant with the SEC on December 7, 2004).
10.37	Automobile Expense Reimbursement Program for Senior Executives (incorporated herein by reference to Exhibit 10.36 to the Annual Report on Form 10-K for the year ended January 29, 2005 filed by the Registrant on March 29, 2005 (the "2004 Form 10-K").

Exhibit No. in Item 601 of Regulation S-K	Description
10.38	Executive Medical Expense Allowance Program for Senior Executives (incorporated herein by reference to Exhibit 10.37 to the 2004 Form 10-K).
10.39	Financial Planning Allowance Program for Senior Executives (incorporated herein by reference to Exhibit 10.38 to the 2004 Form 10-K).
10.40	Form of Nonstatutory Stock Option Award Agreement for Executive Officers.
10.41	Form of Incentive Stock Option Award Agreement for Executive Officers.
10.42	Form of Nonstatutory Stock Option Award Agreement for Non-employee Directors (incorporated herein by reference to Exhibit 10.2 to the July 31, 2004 Form 10-Q).
10.43	Long-term Disability Program for Senior Executives (incorporated herein by reference to Exhibit 10.42 to the 2004 Form 10-K).
10.44	Letter Agreement with Bruce L. Hartman (incorporated herein by reference to Exhibit 99.1 to the Form 8-K filed by the Registrant on December 28, 2005).
12	Computation of Ratio of Earnings to Fixed Charges.
18	Letter on Change in Accounting Principle (incorporated herein by reference to Exhibit 18 to the 1999 Form 10-K).
21	Subsidiaries of the Registrant.
23	Consent of Independent Registered Public Accounting Firm.
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	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.

Exhibits filed with this Form 10-K:

Exhibit No. in Item 601 of Regulation S-K	Description
10.10	Amendment to the Supplemental Executive Retirement Plan adopted November 16, 2005.
10.40	Form of Nonstatutory Stock Option Award Agreement for Executive Officers.
10.41	Form of Incentive Stock Option Award Agreement for Executive Officers.
12	Computation of Ratio of Earnings to Fixed Charges.
21	Subsidiaries of the Registrant.
23	Consent of Independent Registered Public Accounting Firm.
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	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.

FOOT LOCKER, INC.

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(Unaudited)
($ in millions)

	Fiscal Year Ended				
	Jan. 28, 2006	Jan. 29, 2005	Jan. 31, 2004	Feb. 1, 2003	Feb. 2, 2002
NET EARNINGS					
Income from continuing operations	$263	$255	$209	$162	$111
Income tax expense	142	119	115	84	64
Interest expense, excluding capitalized interest	23	22	26	33	35
Portion of rents deemed representative of the interest factor (1/3)	214	202	177	164	157
	$642	$598	$527	$443	$367
FIXED CHARGES					
Gross interest expense	$ 23	$ 22	$ 26	$ 33	$ 35
Portion of rents deemed representative of the interest factor (1/3)	214	202	177	164	157
	$237	$224	$203	$197	$192
RATIO OF EARNINGS TO FIXED CHARGES	2.7	2.7	2.6	2.2	1.9

Exhibit 21

FOOT LOCKER, INC. SUBSIDIARIES[1]

The following is a list of subsidiaries of Foot Locker, Inc. as of January 28, 2006, omitting some subsidiaries, which, considered in the aggregate, would not constitute a significant subsidiary.

Name	State or Other Jurisdiction of Incorporation
Footlocker.com, Inc.	Delaware
Eastbay, Inc.	Wisconsin
FLE CV Management, Inc.	Delaware
FLE C.V.	Netherlands
FLE Holdings, BV	Netherlands
FL Europe Holdings, Inc.	Delaware
Foot Locker Austria GmbH	Austria
Foot Locker Belgium B.V.B.A.	Belgium
Foot Locker Denmark ApS	Denmark
Foot Locker Europe B.V.	Netherlands
Foot Locker France S.A.S.	France
Foot Locker Italy S.r.l.	Italy
Foot Locker Netherlands B.V.	Netherlands
Foot Locker Sweden Aktiebolag	Sweden
Foot Locker Germany GmbH & Co. KG	Germany
Foot Locker Spain S.L.	Spain
Foot Locker Australia, Inc.	Delaware
Foot Locker New Zealand, Inc.	Delaware
Freedom Sportsline Limited	United Kingdom
Foot Locker Atlantic City, LLC	Delaware
Team Edition Apparel, Inc.	Florida
Foot Locker Specialty, Inc.	New York
Foot Locker Retail, Inc.	New York
Foot Locker Operations LLC	Delaware

(1) Each subsidiary company is 100% owned, directly or indirectly, by Foot Locker, Inc. All subsidiaries are consolidated with Foot Locker, Inc. for accounting and financial reporting purposes.

FOOT LOCKER, INC. SUBSIDIARIES(1)

Name	State or Other Jurisdiction of Incorporation
Foot Locker Stores, Inc.	Delaware
Foot Locker Corporate Services, Inc.	Delaware
Robby's Sporting Goods, Inc.	Florida
Foot Locker Holdings, Inc.	New York
Foot Locker Canada Corporation	Canada
FL Canada Holdings, Inc.	Delaware
Foot Locker Sourcing, Inc.	Delaware
Foot Locker Artigos desportivos e de tempos livres, Lda.	Portugal
Foot Locker Greece Athletic Goods Ltd.	Greece
Foot Locker Suisse S.A.	Switzerland
FL Corporate NY, LLC	Delaware
FL Retail NY, LLC	Delaware
FL Specialty NY, LLC	Delaware
Foot Locker Canada Holdings ULC	Canada
Foot Locker Retail Ireland Limited	Ireland
FL Finance (Europe) Limited	Ireland
FL Retail Operations LLC	New York
FL Specialty Operations LLC	New York

(1) Each subsidiary company is 100% owned, directly or indirectly, by Foot Locker, Inc. All subsidiaries are consolidated with Foot Locker, Inc. for accounting and financial reporting purposes.

Consent of Independent Registered Public Accounting Firm

To the Board of Directors of
Foot Locker, Inc.

We consent to the incorporation by reference in the following Registration Statements of Foot Locker, Inc. and subsidiaries of our reports dated March 27, 2006 relating to the consolidated balance sheets of Foot Locker, Inc. and subsidiaries as of January 28, 2006 and January 29, 2005 and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended January 28, 2006, and management's assessment of the effectiveness of internal control over financial reporting as of January 28, 2006 and the effectiveness of internal control over financial reporting as of January 28, 2006, which reports appear in the January 28, 2006 Form 10-K of Foot Locker, Inc. and subsidiaries.

- Form S-8 No. 33-10783
- Form S-8 No. 33-91888
- Form S-8 No. 33-91886
- Form S-8 No. 33-97832
- Form S-8 No. 333-07215
- Form S-8 No. 333-21131
- Form S-8 No. 333-62425
- Form S-8 No. 333-33120
- Form S-8 No. 333-41056
- Form S-8 No. 333-41058
- Form S-8 No. 333-74688
- Form S-8 No. 333-99829
- Form S-8 No. 333-111222
- Form S-8 No. 333-121515
- Form S-3 No. 33-43334
- Form S-3 No. 33-86300
- Form S-3 No. 333-64930

KPMG LLP

New York, New York
March 27, 2006

Exhibit 31.1

CERTIFICATIONS

I, Matthew D. Serra, certify that:

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

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

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

4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

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

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the Audit Committee of the Registrant's Board of Directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

March 27, 2006

Matthew D. Serra

Principal Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Robert W. McHugh, certify that:

1. I have reviewed this annual report on Form 10-K of Foot Locker, Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report.
4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the Audit Committee of the Registrant's Board of Directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

March 27, 2006

Principal Financial Officer

EXHIBIT 32

FOOT LOCKER, INC.

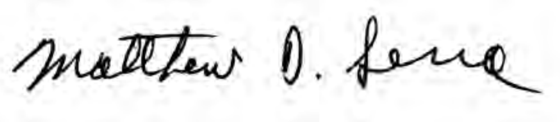
Certification Pursuant to
18 U.S.C. Section 1350
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report on Form 10-K of Foot Locker, Inc. (the “Registrant”) for the period ended January 28, 2006, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Matthew D. Serra as Chief Executive Officer of the Registrant and Robert W. McHugh as Chief Financial Officer of the Registrant, each hereby certify, pursuant to 18 U.S.C. Section 1350, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Dated: March 27, 2006



Matthew D. Serra
Chief Executive Officer

Robert W. McHugh
Chief Financial Officer

Foot Locker, Inc.

BOARD OF DIRECTORS

Matthew D. Serra [1, 5]
Chairman of the Board,
President and Chief Executive Officer

Purdy Crawford [1, 2, 3]
Corporate Director

Nicholas DiPaolo [2, 5, 6]
Retired Vice Chairman
and Chief Operating Officer
Bernard Chaus, Inc.

Alan D. Feldman [6]
President and Chief Executive Officer
Midas, Inc.

Philip H. Geier Jr. [3, 6]
Retired Chairman of the Board
and Chief Executive Officer
Interpublic Group of Companies, Inc.

Jarobin Gilbert Jr. [1, 2, 4, 5]
President and Chief Executive Officer
DBSS Group, Inc.

James E. Preston [1, 3, 4]
Retired Chairman of the Board
and Chief Executive Officer
Avon Products, Inc.

David Y. Schwartz [2, 6]
Independent Business Advisor and
Consultant

Christopher A. Sinclair [1, 3, 6]
Executive Chairman of the Board
Scandent Group Holdings, Mauritius

Cheryl Nido Turpin [3, 4]
Retired President and
Chief Executive Officer
The Limited Stores

Dona D. Young [2, 4]
Chairman of the Board, President
and Chief Executive Officer
The Phoenix Companies, Inc.

1 Member of Executive Committee
2 Member of Audit Committee
3 Member of Compensation and Management Resources Committee
4 Member of Nominating and Corporate Governance Committee
5 Member of Retirement Plan Committee
6 Member of Finance and Strategic Planning Committee

CORPORATE MANAGEMENT

Executive Officers:

Matthew D. Serra
Chairman of the Board,
President and Chief Executive Officer

Richard T. Mina
President and Chief Executive Officer
Foot Locker, Inc. - U.S.A.

Senior Vice Presidents:

Gary M. Bahler
General Counsel and Secretary

Jeffrey L. Berk
Real Estate

Marc D. Katz
Chief Information Officer

Robert W. McHugh
Chief Financial Officer

Lauren B. Peters
Strategic Planning

Laurie J. Petrucci
Human Resources

Vice Presidents:

Joseph N. Bongiorno
Logistics

Peter D. Brown
Investor Relations and Treasurer

James T. Bulzis
Global Sourcing and Team Edition

Giovanna Cipriano
Chief Accounting Officer

Peter M. Cupps
Corporate Shared Services

Patricia A. Peck
Human Resources

Dennis E. Sheehan
Deputy General Counsel

Bernard F. Steenman
Risk Management

DIVISION MANAGEMENT

Nicholas M. Grayston
President and Chief Executive Officer
Foot Locker U.S./
Kids Foot Locker/Footaction

Ronald J. Halls
President and Chief Executive Officer
Champs Sports

Keith T. Daly
President and Chief Executive Officer
Foot Locker Europe

Marla C. Anderson
President and Chief Executive Officer
Lady Foot Locker

Rubin L. Hanan
President
Foot Locker Canada

Richard A. Johnson
President and Chief Executive Officer
Footlocker.com/Eastbay

Lewis P. Kimble
Managing Director
Foot Locker Asia Pacific

CORPORATE INFORMATION

Corporate Headquarters
112 West 34th Street
New York, New York 10120
(212) 720-3700

Transfer Agent and Registrar
The Bank of New York
Shareholder Relations Department
P.O. Box 11258
Church Street Station
New York, New York 10286
(866) 857-2216
(212) 815-3700 Outside U.S. and Canada
(800) 936-4237 Hearing Impaired
www.stockbny.com
email: shareowners@bankofny.com

Independent Registered Public Accounting Firm
KPMG LLP
345 Park Avenue
New York, New York 10154
(212) 758-9700

Service Marks/Trademarks
Foot Locker, Footaction, Lady Foot Locker, Kids Foot Locker, Champs Sports, footlocker.com, Eastbay, Colorado, Going to the Game!, Weekend Edition, and Team Edition service marks and trademarks are owned by Foot Locker, Inc. or its affiliates.

Dividend Reinvestment
Dividends on Foot Locker, Inc. common stock may be reinvested through participation in the Dividend Reinvestment Program. Participating shareowners may also make optional cash purchases of Foot Locker, Inc. common stock.

Investor Information
Investor inquiries should be directed to the Investor Relations Department at (212) 720-4600.

Worldwide Website
Our website at www.footlocker-inc.com offers information about our Company, as well as online versions of our Form 10-K, SEC reports, quarterly results, press releases and corporate governance documents.

Design: RWI (rwidesign.com)

FOOT LOCKER, INC.

112 West 34th Street
New York, NY 10120

FOOT LOCKER, INC.

NOTICE OF 2006 ANNUAL MEETING

AND

PROXY STATEMENT

FOOT LOCKER, INC.

112 West 34th Street
New York, New York 10120

NOTICE OF 2006 ANNUAL MEETING OF SHAREHOLDERS

DATE:	May 24, 2006
TIME:	9:00 A.M., local time
PLACE:	Foot Locker, Inc., 112 West 34th Street, New York, New York 10120
RECORD DATE:	Shareholders of record on March 31, 2006 can vote at this meeting.
ANNUAL REPORT:	Our 2005 annual report on Form 10-K, which is not part of the proxy soliciting material, is enclosed.
ITEMS OF BUSINESS:	• Elect four members to the Board of Directors to serve for three-year terms and one member to the Board of Directors to serve for a two-year term. • Ratify the appointment of KPMG LLP as our independent registered public accounting firm for the 2006 fiscal year. • Reapprove the performance goals of the Long-Term Incentive Compensation Plan. • Transact such other business as may properly come before the meeting and at any adjournment or postponement.
PROXY VOTING:	YOUR VOTE IS IMPORTANT TO US. Please vote as soon as possible in one of these ways: • Use the toll-free telephone number shown on your proxy card; • Visit the web site listed on your proxy card to vote via the Internet; • Complete and promptly return your proxy card in the enclosed postage-paid envelope; or • Follow the instructions on your proxy materials if your shares are held in street name. Even if you plan to attend the annual meeting, we encourage you to vote in advance using one of these methods.

GARY M. BAHLER
Secretary

April 10, 2006

TABLE OF CONTENTS

FOOT LOCKER, INC.

112 West 34th Street
New York, New York 10120

PROXY STATEMENT

Why did I receive these proxy materials?

We are providing these proxy materials to you in connection with the solicitation of proxies by the Board of Directors of Foot Locker, Inc. for the 2006 Annual Meeting of Shareholders and for any adjournments or postponements of this meeting. We are holding this annual meeting on May 24, 2006 at 9:00 A.M. In this proxy statement we refer to Foot Locker, Inc. as "Foot Locker," "the Company," "we," "our," or "us." We are also mailing to you a copy of the Company's 2005 Form 10-K along with this proxy statement.

We intend to mail this proxy statement and the proxy card to shareholders beginning on or about April 10, 2006.

May I obtain an additional copy of the Form 10-K?

You may obtain an additional copy of our 2005 Form 10-K without charge by writing to our Investor Relations Department at Foot Locker, Inc., 112 West 34th Street, New York, New York 10120. It is also available free of charge through our corporate web site at *www.footlocker-inc.com.*

What is the record date for this meeting?

The record date for this meeting is March 31, 2006.

Do I need a ticket to attend the Annual Meeting?

You will need an admission ticket to attend the Annual Meeting. Attendance at the meeting will be limited to shareholders as of the record date (or their authorized representatives) having an admission ticket or evidence of their share ownership, and guests of the Company. If you plan to attend the meeting, please mark the appropriate box on your proxy card, and we will mail an admission ticket to you. You may also request an admission ticket if you are voting by telephone or via the Internet by responding to the appropriate prompts offered in those methods.

If your shares are held in the name of a bank, broker, or other holder of record and you plan to attend the meeting, you can obtain an admission ticket in advance by providing proof of your ownership, such as a bank or brokerage account statement, to the Corporate Secretary at Foot Locker, Inc., 112 West 34th Street, New York, New York 10120. If you do not obtain an admission ticket, you must show proof of your ownership of the Company's Common Stock at the registration table at the door.

What proposals are being voted on at this meeting?

You are being asked to vote on the following items:

- the election of four directors in Class III and one director in Class II (Proposal 1);
- the ratification of the appointment of KPMG LLP as our independent registered public accountants (Proposal 2); and
- the reapproval of the performance goals under the Long-Term Incentive Compensation Plan (Proposal 3).

How does the Board of Directors recommend that I vote on the proposals?

The Board recommends that you vote “FOR”each of the proposals being voted on at the meeting (Proposals 1, 2, and 3).

Could other matters be voted on at the Annual Meeting?

We do not know of any other business that will be presented at the 2006 annual meeting. If other matters properly come before the meeting, including matters that may have been proposed for inclusion in the Company’s proxy materials but were omitted under the SEC’s rules, the persons named as proxies will exercise their discretionary authority to vote on such matters in accordance with their best judgment.

Who may vote at the Annual Meeting?

The only voting securities of Foot Locker are our shares of Common Stock. Only shareholders of record on the books of the Company at the close of business on March 31, 2006 are entitled to vote at the annual meeting and any adjournments or postponements. Each share is entitled to one vote. There were 155,536,140 shares of Common Stock outstanding on the record date. The enclosed proxy card shows the number of shares of Common Stock registered in the name of each shareholder of record on the record date.

What are the voting requirements to elect directors and to approve the other proposals?

Directors must be elected by a plurality of the votes cast by shareholders. Each of the other proposals requires the affirmative vote of a majority of the votes cast by shareholders in order to be approved.

What constitutes a quorum for the Annual Meeting?

We will have a quorum and will be able to conduct the business of the Annual Meeting if the holders of a majority of the votes that shareholders are entitled to cast are present at the meeting, either in person or by proxy. In determining whether we have a quorum, we count abstentions and broker non-votes, if any, as present and entitled to vote.

How will the votes be counted?

Votes will be counted and certified by representatives of our transfer agent, The Bank of New York, as inspectors of election. The inspectors of election are independent and are not employees of Foot Locker.

We do not count abstentions and broker non-votes, if any, in determining the votes cast for any proposal. Votes withheld for the election of one or more of the nominees for director will not be counted as votes cast for those individuals.

Broker non-votes occur when brokers or other entities holding shares for an owner in street name do not receive voting instructions from the owner on non-routine matters and, consequently, have no discretion to vote on those matters. If a proposal is routine under the rules of the New York Stock Exchange, then the brokers or other entities may vote the shares held by them even though they have not received instructions from the owner.

The Company’s Certificate of Incorporation and By-laws do not contain any provisions on the effect of abstentions or broker non-votes.

Will my vote be confidential?

Our policy is to provide our shareholders with privacy in voting. All proxy cards, voting instructions, ballots and voting tabulations identifying shareholders are held permanently confidential from the Company, except:

– as necessary to meet any applicable legal requirements,
– when disclosure is expressly requested by a shareholder or where a shareholder writes a comment on a proxy card,
– in a contested proxy solicitation, and
– to allow independent inspectors of election to tabulate and certify the vote.

Are shares held in employee plans included on the proxy card?

If you hold shares of Foot Locker Common Stock through the Foot Locker 401(k) Plan or the Foot Locker Puerto Rico 1165(e) Plan, the enclosed proxy card also shows the number of shares allocated to your plan account. Your proxy card will serve as a voting instruction card for the trustees of the plans, who will vote the shares. The trustees will vote only those shares for which voting instructions have been given. To allow sufficient time for voting by the trustees of these plans, your voting instructions must be received by May 19, 2006.

How do I vote my shares?

You may vote using any of the following methods:

- ***Vote by Telephone***

If you are located within the United States or Canada, you can vote your shares by telephone by calling the toll-free telephone number on your proxy card. Telephone voting is available 24 hours a day and will be accessible until 9:00 A.M. on May 24, 2006. The voice prompts allow you to vote your shares and confirm that your instructions have been properly recorded. Our telephone voting procedures are designed to authenticate shareholders by using individual control numbers. **If you vote by telephone, you do NOT need to return your proxy card.** If you are an owner in street name, please follow the instructions that accompany your proxy materials.

- ***Vote by Internet***

You can also choose to vote via the Internet. The web site for Internet voting is listed on your proxy card. Internet voting is available 24 hours a day and will be accessible until 9:00 A.M. on May 24, 2006. As with telephone voting, you will be given the opportunity to confirm that your instructions have been properly recorded. **If you vote via the Internet, you do NOT need to return your proxy card.** If you are an owner in street name, please follow the instructions that accompany your proxy materials.

- ***Vote by Mail***

If you choose to vote by mail, simply mark your proxy, date and sign it, and return it in the postage-paid envelope provided.

- ***Voting at the Annual Meeting***

You may also vote by ballot at the annual meeting if you decide to attend in person. If your shares are held in the name of a bank, broker or other holder of record, you must obtain a proxy, executed in your favor, from the holder of record to be able to vote at the meeting.

All shares that have been properly voted and not revoked will be voted at the annual meeting. If you sign and return your proxy card but do not give voting instructions, the shares represented by that proxy card will be voted as recommended by the Board of Directors.

- ***Voting on Other Matters***

If any other matters are properly presented at the annual meeting for consideration, the persons named in the proxy will have the discretion to vote on those matters for you. At the date this proxy statement went to press, we did not know of any other matter to be raised at the annual meeting.

Can I change my mind after voting my shares?

You may revoke your proxy at any time before it is used by (i) submitting a written notice to the Company, (ii) delivering a valid proxy with a later date, (iii) providing a later dated vote by telephone or on the Internet, or (iv) voting by ballot at the Annual Meeting.

What is "householding"and how does it affect me?

Foot Locker has adopted a procedure called "householding"for mailing the annual report and proxy statement that is intended to reduce our printing costs and postage fees. Under this procedure, shareholders of record who share the same address and same last name will receive only one copy of our annual report and proxy statement unless any of the shareholders at that address notifies us that they wish to continue receiving individual copies.

We will continue to mail a proxy card to each shareholder of record. The householding procedure will not in any way affect the mailing of dividend checks.

If you are a shareholder of record, you may call our transfer agent, The Bank of New York, at 1-866-857-2216, or write to the Corporate Secretary at Foot Locker, Inc., 112 West 34th Street, New York, New York 10120 if you would prefer to receive multiple copies of the Company's proxy statement and annual report. We will send additional copies to you promptly upon request. You may also contact the transfer agent or the Corporate Secretary and request householding if you are an eligible shareholder of record receiving multiple copies of the annual report and proxy statement.

Shareholders who hold their shares in street name through a broker, bank or other nominee, may request additional copies of the annual report and proxy statement or may request householding by notifying their broker, bank, or other nominee.

Who pays the cost of this proxy solicitation?

Foot Locker will pay for the cost of the solicitation of proxies, including the preparation, printing and mailing of the proxy materials.

Proxies may be solicited, without additional compensation, by directors, officers or employees of the Company by mail, telephone, facsimile, in person or otherwise. We will request banks, brokers and other custodians, nominees and fiduciaries to deliver proxy material to the beneficial owners of the Company's Common Stock and obtain their voting instructions, and we will reimburse those firms for their expenses under the rules of the Securities and Exchange Commission and The New York Stock Exchange. In addition, we have retained Innisfree M&A Incorporated to assist us in the solicitation of proxies for a fee of $10,000 plus out-of-pocket expenses.

Is it possible to access the proxy statement and annual report on the Internet?

Our proxy statement and annual report are located on our corporate web site at *www.footlocker-inc.com.*

Many shareholders can access future proxy statements and annual reports on the Internet instead of receiving paper copies in the mail. If you are a shareholder of record, you may give your consent to access these materials in the future on the Internet by going to *https://www.giveconsent.com/fl* and following the instructions on that site. If you vote by telephone or on the Internet, you may consent to access these materials in the future on the Internet by following the instructions provided on those voting sites. If you choose to access future annual reports and proxy statements on the Internet, you will receive a proxy card in the mail next year with instructions containing the Internet address for those materials. Your choice will remain in effect until you advise us otherwise in writing.

Beneficial shareholders who hold their shares in street name through a broker, bank, or other nominee should refer to the information provided by their broker, bank or nominee for instructions on how to elect access to future annual reports and proxy statements on the Internet. Most brokers and bankers whose beneficial shareholders elect electronic access will send an e-mail message to those shareholders next year containing the Internet address for access to the proxy statement and annual report.

BENEFICIAL OWNERSHIP OF THE COMPANY'S STOCK

Directors and Executive Officers

The table below shows the number of shares of Common Stock reported to the Company as beneficially owned by each of the directors, nominees, and the named executive officers as of March 31, 2006. The table also shows beneficial ownership by all directors, nominees, named executive officers, and executive officers as a group on that date, including shares of Common Stock that they have a right to acquire within 60 days after March 31, 2006 by the exercise of stock options.

No director, nominee, named executive officer, or executive officer beneficially owned one percent or more of the total number of outstanding shares of Common Stock as of March 31, 2006.

Each person has sole voting and investment power with respect to the number of shares shown unless otherwise noted.

Amount and Nature of Beneficial Ownership

Name	Common Stock Beneficially Owned Excluding Stock Options(a)	Stock Options Exercisable Within 60 Days After 3/31/06	Deferred Stock Units Beneficially Owned(b)	Total Shares of Common Stock Beneficially Owned
Gary M. Bahler	99,861	227,668	—	327,529
Jeffrey L. Berk	32,492	239,666	—	273,158
Purdy Crawford	58,870(c)	21,081	—	79,951
Nicholas DiPaolo	8,619(d)	12,103	—	20,722
Alan D. Feldman	3,185	1,875	—	5,060
Philip H. Geier Jr.	29,608	21,081	—	50,689
Jarobin Gilbert Jr.	4,903	21,081	—	25,984
Bruce L. Hartman	-0-	-0-	—	-0-
Matthew M. McKenna	1,000	-0-	—	1,000
Richard T. Mina	265,684	315,837	—	581,521
Laurie J. Petrucci	65,056	75,167	—	140,223
James E. Preston	50,279	21,081	—	71,360
David Y. Schwartz	12,275	21,081	5,109	38,465
Matthew D. Serra	504,264	871,664	—	1,375,928
Christopher A. Sinclair	15,900	21,081	—	36,981
Cheryl Nido Turpin	5,964	16,376	3,492	25,832
Dona D. Young	7,356	16,376	10,219	33,951
All 22 directors, nominees, and executive officers as a group, including the named executive officers	1,387,344	2,401,394	18,820	3,807,558(e)

(a) This column includes shares held in the Company's 401(k) Plan and unvested shares of restricted stock.

(b) Reflects the number of deferred stock units credited as of March 31, 2006 to the account of the directors who elected to defer all or part of their annual retainer fee under the 2002 Directors Stock Plan. These units are payable solely in shares of the Company's Common Stock following termination of service as a director. The deferred stock units do not have current voting or investment power.

(c) 50,520 shares are held by a private Canadian company of which Mr. Crawford is the sole director and officer. Mr. Crawford and a family trust are the shareholders of the private company, with Mr. Crawford holding voting control.

(d) Includes 150 shares held by his spouse.

(e) This figure represents approximately 2.45 percent of the shares of Common Stock outstanding at the close of business on March 31, 2006.

Persons Owning More Than Five Percent of the Company's Stock

The following table provides information on shareholders who beneficially own more than five percent of the Company's Common Stock according to reports filed by those shareholders with the Securities and Exchange Commission ("SEC"). To the best of our knowledge, there are no other shareholders who beneficially own more than five percent of a class of the Company's voting securities.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Lord, Abbett & Co. LLC 90 Hudson Street Jersey City, NJ 07302	14,601,053(a)	9.36%(a)
Merrill Lynch & Co., Inc World Financial Center North Tower 250 Vesey Street New York, NY 10381	9,546,476(b)	6.12%(b)

(a) Reflects shares beneficially owned as of December 30, 2005, according to Amendment No. 3 to Schedule 13G filed with the SEC. As reported in this schedule, Lord, Abbett & Co. LLC, an investment adviser, holds sole voting and dispositive power with respect to the 14,601,053 shares.

(b) Reflects shares beneficially owned as of December 31, 2005 by Merrill Lynch & Co., Inc. (on behalf of Merrill Lynch Investment Managers ("MLIM")) according to Amendment No. 2 to Schedule 13G filed with the SEC. Merrill Lynch & Co., Inc. (on behalf of MLIM), an investment adviser, reported shared voting and dispositive power with respect to 9,546,476 shares.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires that the Company's directors and executive officers file with the SEC and The New York Stock Exchange reports of ownership and changes in ownership of Common Stock and other equity securities of the Company. These persons are required by SEC rules to furnish us with copies of all Section 16(a) forms they file. Based solely on a review of the copies of those reports furnished to the Company or written representations that no other reports were required, we believe that during the 2005 fiscal year, the directors and executive officers complied with all applicable SEC filing requirements.

CORPORATE GOVERNANCE INFORMATION

Corporate Governance Guidelines

The Board of Directors has adopted Corporate Governance Guidelines. The Board expects periodically to review and may, if appropriate, revise the guidelines. The Corporate Governance Guidelines are available on the corporate governance section of the Company's corporate web site at *www.footlocker-inc.com.* You may also obtain a printed copy of the guidelines by writing to the Corporate Secretary at the Company's headquarters.

Stock Ownership Guidelines

The Board of Directors has adopted Stock Ownership Guidelines. These guidelines cover the Board of Directors, the Chief Executive Officer, and Other Principal Officers, as follows:

- ***Board of Directors***. Each non-employee director is required to beneficially own shares of our Common Stock having a value of at least three times the annual retainer fee paid to the non-employee directors.

- ***Chief Executive Officer***. The CEO is required to beneficially own shares of our Common Stock having a value of at least four times his annual base salary.
- ***Other Principal Officers***. Other Principal Officers of the Company are required to beneficially own shares of our Common Stock having a value of at least two times their individual annual base salaries. The category of Other Principal Officers includes all corporate officers at the senior vice president level or higher and the chief executive officers of the Company's operating divisions.

For purposes of calculating beneficial ownership, restricted stock, restricted stock units, and deferred stock units are counted towards ownership; stock options are disregarded.

The target date for full compliance with these guidelines is February 2011, which is five years after the effective date of these guidelines. Non-employee directors who are elected to the Board after February 2006, as well as employees who are elected or appointed after this date to positions covered by these guidelines, must be in compliance within five years after their initial election or appointment.

Committee Charters

The Board of Directors has adopted charters for the Audit Committee, the Compensation and Management Resources Committee, the Finance and Strategic Planning Committee, the Nominating and Corporate Governance Committee, and the Retirement Plan Committee. Copies of the charters for these committees are available on the corporate governance section of the Company's corporate web site at *www.footlocker-inc.com.* You may also obtain printed copies of these charters by writing to the Corporate Secretary at the Company's headquarters.

Director Independence

The Board believes that a significant majority of the members of the Board should be independent, as determined by the Board in accordance with the criteria established by The New York Stock Exchange. The Nominating and Corporate Governance Committee will review, on an annual basis, any relationships between outside directors and the Company that may affect independence. Currently, only one of the current 11 members of the Board of Directors serves as an officer of the Company, and 10 of the 11 directors are independent under the criteria established by The New York Stock Exchange.

Presiding Director

The Chair of the Nominating and Corporate Governance Committee has been appointed as the presiding director, who will preside at meetings of the independent and non-management directors.

Executive Sessions of Non-Management Directors

The Board of Directors holds regularly scheduled executive sessions of non-management directors. The Chair of the Nominating and Corporate Governance Committee presides at executive sessions of the independent and non-management directors. Jarobin Gilbert Jr. is the current Chair of this committee.

Board Members' Attendance at Annual Meetings

Although the Company does not have a policy on Board members' attendance at annual shareholders' meetings, we encourage each director to attend these important meetings. The annual meeting is normally scheduled on the same day as a Board of Directors' meeting. In 2005, 10 out of the 11 directors who were then serving attended the annual shareholders' meeting.

New Director Orientation

We have an orientation program for new directors that is intended to educate the new director on the Company and the Board's practices. At the orientation, the newly elected director generally meets with the Company's Chief Executive Officer, the Chief Financial Officer, the General Counsel and Secretary, as well as with other senior financial officers of the Company, to review the business operations, financial matters, investor relations, corporate governance policies, and the composition of the Board and its committees. Additionally, he or she has the opportunity to visit our stores at the Company's New York headquarters, or elsewhere, with a senior division officer for an introduction to store operations.

Payment of Directors Fees in Stock

The non-employee directors receive one-half of their annual retainer fees, including committee chair retainer fees, in shares of the Company's Common Stock, with the balance payable in cash. Directors may elect to receive up to 100 percent of their fees in stock.

Director Retirement

The Board has established a policy that directors resign from the Board at the annual meeting of shareholders following the director's 72nd birthday. As part of the Nominating and Corporate Governance Committee's regular evaluation of the Company's directors and the overall needs of the Board, the Nominating and Corporate Governance Committee may ask a director to remain on the Board for an additional period of time beyond age 72, or to stand for re-election after reaching age 72. However, a director may not remain on the Board beyond the date of the annual meeting of shareholders following his or her 75th birthday.

The Board has established a policy that any director who experiences a change in his or her principal employment position is required to advise the Chair of the Nominating and Corporate Governance Committee of this change. If requested, the director will submit a letter of resignation to the Chair of the Nominating and Corporate Governance Committee, and the Committee would then meet to consider whether to accept or reject the letter of resignation.

Communications with the Board of Directors

The Board has established a procedure for shareholders to send communications to the Board of Directors. Shareholders who wish to communicate directly with the outside directors of the Company should send a letter to: Board of Directors, c/o Secretary, Foot Locker, Inc., 112 West 34th Street, New York, NY 10120.

The Secretary will promptly send a copy of the communication to the Chair of the Nominating and Corporate Governance Committee, who may direct the Secretary to send a copy of the communication to the other outside directors and may determine whether a meeting of the outside directors should be called to review the communication.

A copy of the Procedures for Shareholder Communication with the Board of Directors is available on the Company's corporate web site at *www.footlocker-inc.com.* You may obtain a printed copy of the procedures by writing to the Corporate Secretary at the Company's headquarters.

Retention of Outside Advisors

The Board of Directors and all of its committees have authority to retain the services of outside advisors and consultants that they consider necessary or appropriate in carrying out their respective responsibilities. The independent accountants are retained by the Audit Committee and report directly to the Audit Committee. In addition, the internal auditors are selected by the Audit Committee and are ultimately accountable to the Audit Committee. Similarly, consultants retained by the Compensation and Management Resources Committee to assist it in the evaluation of senior executives' compensation report directly to that committee.

Code of Business Conduct

The Company has adopted a Code of Business Conduct for directors, officers and employees, including our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer. A copy of the Code of Business Conduct is available on the corporate governance section of the Company's corporate web site at *www.footlocker-inc.com.* You may obtain a printed copy of the Code of Business Conduct by writing to the Corporate Secretary at the Company's headquarters.

Any waivers of the Code of Business Conduct for directors and executive officers must be approved by the Audit Committee. We intend to disclose promptly amendments to the Code of Business Conduct and any waivers of the Code for directors and executive officers on the corporate governance section of the Company's corporate website at *www.footlocker-inc.com.*

BOARD OF DIRECTORS

Organization and Powers

The Board of Directors has responsibility for establishing broad corporate policies, reviewing significant developments affecting Foot Locker, and monitoring the general performance of the Company. Our By-laws provide for a Board of Directors consisting of between 9 and 17 directors, the exact number of directors to be determined from time to time by the entire Board. Our Board currently has 11 members. Effective May 24, 2006, the Board has fixed the number of directors at 12, subject to the election of Mr. McKenna to the Board at this annual shareholders' meeting.

There were five meetings of the Board of Directors during 2005. Each of our directors attended at least 75 percent of the meetings of the Board and committees on which they served in 2005.

Independence

The Board of Directors, upon the recommendation of the Nominating and Corporate Governance Committee, has determined that the following directors, as well as the nominee for director, are independent under the rules of The New York Stock Exchange because they have no material or immaterial relationship to the Company that would impair their independence.

Purdy Crawford	James E. Preston
Nicholas DiPaolo	David Y. Schwartz
Alan D. Feldman	Christopher A. Sinclair
Philip H. Geier Jr.	Cheryl Nido Turpin
Jarobin Gilbert Jr.	Dona D. Young
Matthew M. McKenna	

In making their decisions on independence, the Nominating and Corporate Governance Committee and the Board of Directors considered:

- Purdy Crawford's position as counsel to the Toronto law firm of Osler, Hoskin & Harcourt LLP ("OH&H"), a firm that has provided legal services to the Company. Mr. Crawford has advised the Company that, while OH&H provides him with an office and administrative support, the firm provided him with no remuneration in 2005. The Board has determined that Mr. Crawford is independent because he received no direct compensation from OH&H, he is not an employee, equity partner, or manager of OH&H, and he is not involved in the provision of services to the Company.
- Mr. Geier's position as Vice Chairman of the Board of Trustees of the charitable organization Save the Children. Independently of Mr. Geier's involvement with Save the Children, the Company donated approximately 82,500 pairs of athletic footwear with a cost of approximately $2 million, to the Save the Children Foundation in 2005. This donation benefited the tsunami victims in Banda Aceh, Indonesia, as well as Save the Children programs in the United States. In addition, the Foot Locker Foundation contributed approximately $73,000 to Save the Children in 2005. The Board has determined that this relationship is not material because Mr. Geier is not an executive officer of the

organization, he received no benefit from the contributions made by the Company or the Foot Locker Foundation and, further, he had no participation or involvement in soliciting or approving the Company's or the Foot Locker Foundation's contributions to Save the Children.

- Mr. McKenna's position as an executive officer of PepsiCo, Inc. The Company has purchased soft drink products from PepsiCo within the last fiscal year totaling approximately $12,800. In addition, our direct-to-customers business expects to enter into an internet marketing arrangement in 2006 with a division of PepsiCo. The Company expects to receive payments of approximately $500,000 in 2006 from the PepsiCo division under this arrangement. Neither our payments to PepsiCo nor PepsiCo's payments to us approach 2 percent of either company's consolidated gross revenues in 2005. The Board has determined that these relationships are immaterial and would not impair Mr. McKenna's independence because the amounts involved are not material to either company and the product purchases and internet marketing arrangement were in the ordinary course of business.

The Board of Directors, upon the recommendation of the Nominating and Corporate Governance Committee, has determined that Matthew D. Serra is not independent because Mr. Serra is an executive officer of the Company.

The Board of Directors has determined that all members of the Audit Committee, the Compensation and Management Resources Committee and the Nominating and Corporate Governance Committee are independent as defined under the listing standards of The New York Stock Exchange.

Committees of the Board of Directors

The Board has delegated certain duties to committees, which assist the Board in carrying out its responsibilities. There are six standing committees of the Board. Each director serves on at least one committee. The committee memberships, the number of meetings held during 2005, and the functions of the committees are described below.

Audit Committee	Compensation and Management Resources Committee	Finance and Strategic Planning Committee	Nominating and Corporate Governance Committee	Retirement Plan Committee	Executive Committee
P. Crawford*	J. Preston*	C. Sinclair*	J. Gilbert Jr.*	J. Gilbert Jr.*	M. Serra*
N. DiPaolo	P. Crawford	N. DiPaolo	J. Preston	N. DiPaolo	P. Crawford
J. Gilbert Jr.	P. Geier Jr.	A. Feldman	C. Turpin	R. McHugh	J. Gilbert Jr.
D. Schwartz	C. Sinclair	P. Geier Jr.	D. Young	L. Petrucci	J. Preston
D. Young	C. Turpin	D. Schwartz		M. Serra	C. Sinclair

* Committee Chair

Audit Committee. The committee held 10 meetings in 2005.

The Board of Directors and the Audit Committee have approved a charter governing the committee. A copy of the charter is available on the corporate governance section of our corporate web site at *www.footlocker-inc.com.* The report of the Audit Committee appears on Page 35.

This committee appoints the independent accountants and the internal auditors and is responsible for approving the independent accountants' and internal auditors' compensation. This committee also assists the Board in fulfilling its oversight responsibilities in the following areas:

- accounting policies and practices,
- the integrity of the Company's financial statements,
- compliance with legal and regulatory requirements,
- the qualifications, independence, and performance of the independent accountants, and
- the qualifications and performance of the internal audit function.

The Audit Committee has established procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters.

Audit Committee Financial Expert. The Board of Directors has determined that the Company has at least one audit committee financial expert, as defined under the rules of the Securities Exchange Act of 1934, serving on the Audit Committee. David Y. Schwartz has been designated as the audit committee financial expert. Mr. Schwartz is independent under the rules of The New York Stock Exchange and the Securities Exchange Act of 1934.

Finance and Strategic Planning Committee. The committee held three meetings in 2005.

This committee (i) reviews the overall strategic and financial plans of the Company, including capital expenditure plans, (ii) considers proposed debt or equity issues of the Company, (iii) considers and makes recommendations to the Board of Directors concerning dividend payments and share repurchases, and (iv) reviews acquisition and divestiture proposals.

Compensation and Management Resources Committee. The committee held five meetings in 2005. The committee's report appears on Page 27.

This committee determines compensation for the Company's officers and some aspects of compensation for certain other executives of the Company and its operating divisions. The committee, or its sub-committee, also administers Foot Locker's various compensation plans, including the incentive plans, the equity-based compensation plans, the employees stock purchase plan, and the deferred compensation plan. Members of the committee are not eligible to participate in any of these plans.

The committee has retained an outside compensation consultant, reporting directly to the committee, to assist it in evaluating executive compensation and benefits matters. The committee periodically reviews, and makes recommendations to the Nominating and Corporate Governance Committee concerning, the form and amount of directors' compensation. The committee also reviews and makes recommendations to the Board of Directors regarding executive development and succession, including for the position of Chief Executive Officer.

Nominating and Corporate Governance Committee. The committee held three meetings in 2005.

This committee has responsibility for overseeing matters of corporate governance affecting the Company, including developing and recommending criteria and policies relating to service and tenure of directors. The committee is responsible for collecting the names of potential nominees to the Board, reviewing the background and qualifications of potential candidates for Board membership, and making recommendations to the Board for the nomination and election of directors. The committee also reviews membership on the committees of the Board and makes recommendations with regard to committee members and chairs. In addition, the committee periodically reviews recommendations from the Compensation and Management Resources Committee concerning the form and amount of directors' compensation.

The Nominating and Corporate Governance Committee may, from time to time, establish criteria for candidates for Board membership. These criteria may include area of expertise, diversity of experience, independence, commitment to representing the long-term interests of the Company's stakeholders, and other relevant factors, taking into consideration the needs of the Board and the Company and the mix of expertise and experience among current directors. From time to time the committee may retain the services of a third party search firm to identify potential director candidates.

The committee will consider nominees to the Board of Directors recommended by shareholders that comply with the provisions of the Company's By-Laws and relevant law, regulation, or stock exchange rules. The procedures for shareholders to follow to propose a potential director candidate are described on Page 38.

After a potential nominee is identified, the committee chair will review his or her biographical information and discuss with the other members of the committee whether to request additional information about the individual or to schedule a meeting with the potential candidate. The committee's screening process for director candidates is the same regardless of the source who identified the potential candidate. The committee's determination on whether to proceed with a formal evaluation of a potential candidate is based on the person's experience and qualifications, as well as the current composition of the Board and its anticipated future needs.

Matthew M. McKenna, who has been nominated to stand for election as a director at this annual meeting, was recommended for consideration by the committee by Jarobin Gilbert Jr., a non-management director and Chair of the Nominating and Corporate Governance Committee.

Retirement Plan Committee. The committee held six meetings in 2005.

This committee has responsibility to supervise the investment of the assets of the Company's United States retirement plans and to appoint, review the performance of and, if appropriate, replace, the trustee of the Company's pension trust and the investment manager responsible for managing the funds of the trust. The committee also has certain administrative responsibilities with regard to the United States retirement plans of the Company.

Executive Committee. The committee did not meet in 2005.

Except for certain matters reserved to the Board, this committee has all of the powers of the Board in the management of the business of the Company during intervals between Board meetings.

DIRECTORS' COMPENSATION AND BENEFITS

Non-employee directors receive an annual retainer fee, meeting fees for attendance at each Board and committee meeting, and a stock option grant. Committee chairs receive an additional retainer fee. We do not pay any additional compensation to any director who is also an employee of the Company for service on the Board or any committee.

- ***Annual Retainer.*** We pay the directors an annual retainer fee of $80,000, payable one-half in cash and one-half in shares of our Common Stock under the Foot Locker 2002 Directors Stock Plan. Directors may elect to receive up to 100 percent of their annual retainer fees, including committee chair retainer fees, in stock.

  The number of shares paid to the directors for their annual retainer fee is determined by dividing the applicable retainer fee by the average price of a share of our stock on the last business day preceding the July 1 payment date.

- ***Committee Chair Retainers.*** The chair of the Audit Committee receives an additional annual retainer of $10,000, and the chairs of each of the Compensation and Management Resources Committee, the Nominating and Corporate Governance Committee, the Finance and Strategic Planning Committee, and the Retirement Plan Committee receive an additional annual retainer of $7,500. The committee chair retainers are paid in the same form as the directors' annual retainers. No additional annual retainer fee is paid to the chair of the Executive Committee.

- ***Meeting Fees.*** We pay a meeting fee of $1,500 to directors for each Board and committee meeting attended.

- ***Stock Option Grants.*** Directors receive a stock option grant on the first business day of each fiscal year. Directors who are initially elected to the Board after the first day of the fiscal year are granted a stock option on the date of the first Board meeting that the director attends in the fiscal year of his or her election. In both cases the number of options granted is calculated by dividing $50,000 by the average of the high and low prices of a share of the Company's Common Stock on the date of grant. The per-share exercise price of each stock option granted may not be less than the fair market value of a share of Common Stock on the date of grant. Options fully vest one year following the date of grant. Vested options may remain exercisable for one year following a director's termination of service as a director. However, under no circumstances may an option remain outstanding for more than ten years from its date of grant.

- ***Lead Director.*** J. Carter Bacot served as lead director until his death on April 7, 2005. We paid him an additional cash retainer of $25,000 for his services in this capacity in 2005 and provided him with an office and administrative support.

- ***Miscellaneous.*** Directors and their immediate families are eligible to receive discounts on purchases of merchandise from our stores, catalogs and Internet sites. The Company reimburses non-employee directors for their reasonable expenses in attending meetings of the Board and committees, including their transportation expenses to and from meetings, hotel accommodations, and meals.

Deferral Election. Non-employee directors may elect under the Foot Locker 2002 Directors Stock Plan to receive all or a portion of the cash component of their annual retainer (including committee chair retainers) in the form of deferred stock units or to have these amounts placed in an interest account. Directors may also elect to receive all or part of the stock component of their annual retainers in the form of deferred stock units. The interest account is a hypothetical investment account bearing interest at the rate of 120 percent of the applicable federal long-term rate, compounded annually, and set as of the first day of each plan year. A stock unit is an accounting equivalent of one share of the Company's Common Stock.

The amounts paid to each non-employee director for 2005, including amounts deferred under the Foot Locker 2002 Directors Stock Plan, and the options granted to each director are reported in the tables below.

2005 Compensation of Non-Employee Directors

Director	Annual Retainer/Committee Chair Retainer Paid in Cash $	Annual Retainer/Committee Chair Retainer Paid in Stock	Lead Director Fee Paid in Cash $	Meeting Fees $	Total
J. C. Bacot*	21,875	21,875	25,000	7,500	76,250
P. Crawford	45,000	45,000	—	28,500	118,500
N. DiPaolo	40,000	40,000	—	39,000	119,000
A. Feldman	—	73,333	—	10,500	83,833
P. Geier Jr.	40,000	40,000	—	15,000	95,000
J. Gilbert Jr	45,938	45,938	—	31,500	123,376
J. Preston	43,750	43,750	—	18,000	105,500
D. Schwartz	40,000	40,000**	—	30,000	110,000
C. Sinclair	43,750	43,750	—	19,500	107,000
C. Turpin	20,000	60,000**	—	12,000	92,000
D. Young	—	80,000**	—	25,500	105,500

* Served as a director until his death on April 7, 2005.

** Payment deferred under the Foot Locker 2002 Directors Stock Plan.

2005 Stock Option Grants to Non-Employee Directors

Director	Annual Stock Option Grant (# of Shares)	Date of Grant	Fair Market Value on Date of Grant $
J. C. Bacot*	1,878	01/31/05	26.61
P. Crawford	1,878	01/31/05	26.61
N. DiPaolo	1,878	01/31/05	26.61
A. Feldman	1,875	02/16/05	26.66
P. Geier Jr.	1,878	01/31/05	26.61
J. Gilbert Jr	1,878	01/31/05	26.61
J. Preston	1,878	01/31/05	26.61
D. Schwartz	1,878	01/31/05	26.61
C. Sinclair	1,878	01/31/05	26.61
C. Turpin	1,878	01/31/05	26.61
D. Young	1,878	01/31/05	26.61

* Option automatically cancelled as a result of Mr. Bacot's death on April 7, 2005.

Directors' Retirement Plan

The Directors' Retirement Plan was frozen as of December 31, 1995. Consequently, only Jarobin Gilbert Jr. and James E. Preston, who had each completed at least five years of service as a director on the date the plan was frozen, are entitled to receive a benefit under this plan when their service as directors ends. Messrs. Gilbert and Preston will receive an annual retirement benefit of $24,000 for a period of 10 years after they leave the Board or until their death, if sooner.

Directors and Officers Indemnification and Insurance

We have purchased directors and officers liability and corporation reimbursement insurance from a group of insurers comprising ACE American Insurance Co., St. Paul Mercury Insurance, RLI Insurance Co., Starr Excess, American Casualty Company of Reading, PA (CNA), Allied World Assurance Company, Ltd., and XL Bermuda. These policies insure the Company and all of the Company's wholly owned subsidiaries. They also insure all of the directors and officers of the Company and the covered subsidiaries. The policies were written for a term of 12 months, from September 12, 2005 until

September 12, 2006. The total annual premium for these policies, including fees, is $1,697,375. Directors and officers of the Company, as well as all other employees with fiduciary responsibilities under the Employee Retirement Income Security Act of 1974, as amended, are insured under policies issued by a group of insurers comprising Arch, St. Paul Mercury Insurance, American Casualty Company of Reading PA (CNA) and RLI Insurance Co., which have a total premium of $420,700 for the 12-month period ending September 12, 2006.

The Company has entered into indemnification agreements with its directors and officers, as approved by shareholders at the 1987 annual meeting.

Certain Relationships and Related Transactions

Foot Locker and its subsidiaries have had transactions in the normal course of business with various other organizations, including certain organizations whose directors or officers are also directors, or nominees to be directors, of the Company. The amounts involved in these transactions have not been material in relation to our business, and it is believed that these amounts have not been material in relation to the businesses of the other organizations. In addition, it is believed that these transactions have been on terms no less favorable to the Company than if they had been entered into with disinterested parties. It is anticipated that transactions with such other organizations will continue in the future.

As noted on Page 9, Purdy Crawford, a member of the Board, is Counsel to the Canadian law firm of Osler, Hoskin & Harcourt LLP, which provides legal services to the Company. Mr. Crawford has advised the Company that, while this firm provides him with an office and administrative support, the firm provided him with no remuneration in 2005. Mr. Crawford received no direct compensation from the firm, he is not an employee, equity partner, or manager of the firm, and he is not involved in the provision of services to the Company.

EXECUTIVE COMPENSATION

Summary Compensation Table

		Annual Compensation			Long-Term Compensation: Awards		Long-Term Compensation: Payouts	
Name and Principal Position(a)	Year	Salary ($)	Bonus ($)	Other Annual Compensation ($)(b)	Restricted Stock ($)(c)	Securities Underlying Option/SARs (#)	LTIP Payouts ($)(d)	All Other Compensation ($)(e)
Matthew D. Serra	2005	1,500,000	-0-	63,189	2,811,900	115,000	1,617,120	2,100
Chairman, President and	2004	1,500,000	1,662,000	60,261	1,916,250	100,000	2,117,700	1,738
Chief Executive Officer	2003	1,500,000	2,538,000	63,458	5,716,000	100,000	1,423,776	2,000
Richard T. Mina								
President and Chief	2005	787,500	-0-	40,217	1,125,600	50,000	754,656	6,387
Executive Officer,	2004	737,500	408,575	42,479	1,892,250	80,000	941,200	4,963
Foot Locker, Inc.-U.S.A.	2003	700,000	592,200	324,712	1,010,000	100,000	507,548	2,998
Gary M. Bahler								
Senior Vice President,	2005	488,506	-0-	25,941	-0-	25,000	485,136	5,175
General Counsel and	2004	465,000	257,610	23,276	756,900	32,000	692,325	3,868
Secretary	2003	443,750	375,413	23,185	307,500	40,000	474,592	4,049
Jeffrey L. Berk	2005	448,969	-0-	5,428	-0-	25,000	470,798	-0-
Senior Vice President-	2004	436,688	241,925	1,606	-0-	32,000	692,325	-0-
Real Estate	2003	433,775	366,974	1,789	307,500	40,000	486,457	-0-
Laurie J. Petrucci	2005	436,538	-0-	22,462	-0-	25,000	431,232	4,952
Senior Vice President-	2004	415,000	229,910	17,784	756,900	32,000	586,440	1,963
Human Resources	2003	390,000	329,940	2,840	307,500	40,000	328,238	1,883
Bruce L. Hartman								
Former Executive Vice	2005	571,536	-0-	38,725	703,500	25,000	-0-	657,637
President and Chief	2004	600,000	332,400	25,792	756,900	32,000	936,675	7,366
Financial Officer	2003	593,750	502,313	26,799	307,500	40,000	646,533	7,817

(a) **Named Executive Officers' Principal Positions**. The named executive officers held the following positions with the Company during the periods covered in the above table:

- M. D. Serra has served as Chairman of the Board since February 1, 2004 and President and Chief Executive Officer since March 4, 2001. He served as President and Chief Operating Officer from April 12, 2000 to March 3, 2001.
- R. T. Mina has served as President and Chief Executive Officer of Foot Locker, Inc.-U.S.A. since February 2, 2003. He previously served as President and Chief Executive Officer of the Company's Champs Sports division from April 13, 1999 to February 1, 2003.
- G. M. Bahler has served as Senior Vice President since August 12, 1998; General Counsel since February 1, 1993; and Secretary since February 1, 1990.
- J. L. Berk has served as Senior Vice President-Real Estate since February 9, 2000.
- L. J. Petrucci has served as Senior Vice President–Human Resources since May 24, 2001. She served as Senior Vice President–Human Resources of the Foot Locker Worldwide division from March 6, 2000 to May 23, 2001.
- B. L. Hartman served as Executive Vice President and Chief Financial Officer from April 18, 2002 until November 18, 2005. He served as Senior Vice President and Chief Financial Officer from February 27, 1999 to April 17, 2002.

(b) **Other Annual Compensation**. This column includes the perquisites shown in the table below, valued at the incremental cost to the Company of providing the personal benefits to the executives. Foot Locker does not have company aircraft. Mr. Serra's automobile allowance includes the incremental cost to the Company of providing Mr. Serra with a driver, who is a full time employee of the Company and who also performs other regular duties for the Company.

Name	Year	Automobile Allowance	Financial Planning	Medical Expense Reimbursement	Supp. LTD Insurance Premiums	Relocation Expenses	Tax Gross-ups for Relocation Expenses	Emp. Agreement Legal Fees	Total
M. Serra	2005	$48,277	$ 4,500	$ 4,847	$ -0-	$ - 0-	$ -0-	$5,565	$ 63,189
	2004	44,965	4,500	10,796	-0-	-0-	-0-	-0-	60,261
	2003	42,447	4,500	9,034	-0-	-0-	-0-	7,477	63,458
R. Mina	2005	30,402	1,250	5,924	2,641	-0-	-0-	-0-	40,217
	2004	15,844	7,500	2,896	2,641	7,706	5,892	-0-	42,479
	2003	16,702	5,965	4,022	1,981	162,083	133,959	-0-	324,712
G. Bahler	2005	15,819	3,000	1,728	5,394	-0-	-0-	-0-	25,941
	2004	13,465	3,000	1,524	5,287	-0-	-0-	-0-	23,276
	2003	13,280	3,000	2,067	4,838	-0-	-0-	-0-	23,185
J. Berk	2005	1,493	-0-	3,935	-0-	-0-	-0-	-0-	5,428
	2004	915	-0-	691	-0-	-0-	-0-	-0-	1,606
	2003	668	-0-	1,121	-0-	-0-	-0-	-0-	1,789
L. Petrucci	2005	18,529	3,440	493	-0-	-0-	-0-	-0-	22,462
	2004	15,000	2,000	784	-0-	-0-	-0-	-0-	17,784
	2003	-0-	1,500	1,340	-0-	-0-	-0-	-0-	2,840
B. Hartman	2005	23,229	10,000	5,496	-0-	-0-	-0-	-0-	38,725
	2004	14,459	7,500	3,833	-0-	-0-	-0-	-0-	25,792
	2003	14,570	7,500	4,729	-0-	-0-	-0-	-0-	26,799

(c) **Restricted Stock**

- **Unvested Shares at End of 2005 Fiscal Year**. At January 28, 2006 the named executive officers held the number of shares of unvested restricted stock, listed in the table below, having the values stated below, based upon a $22.39 closing price of the Company's Common Stock as reported on The New York Stock Exchange on January 27, 2006, the last business day prior to the end of the fiscal year.

Name	# of Shares of Restricted Stock	Year-End $ Value
M. D. Serra	345,000	7,724,550
R. T. Mina	215,000	4,813,850
G. M. Bahler	60,000	1,343,400
J. L. Berk	30,000	671,700
L. J. Petrucci	60,000	1,343,400
B. L. Hartman	-0-	-0-

- **Restricted Stock Awards During 2003-2005**. The Company granted awards of restricted stock to the named executive officers in fiscal years 2003–2005 on the dates indicated in the table below. The shares of restricted stock vest on their respective vesting dates, provided that the executive remains employed by the Company from the date of grant through the applicable vesting date. The shares of restricted stock awarded to Bruce Hartman in 2003–2005 were forfeited on December 18, 2005 because his employment with Foot Locker ended prior to the vesting dates for these awards. The executives have the right to receive and retain all regular cash dividends payable after the date of grant to record holders of Common Stock. We calculated the values of the restricted stock awards by multiplying the closing price of the Company's Common Stock on

The New York Stock Exchange on the individual grant dates by the total number of shares of restricted stock awarded on those dates.

Name	Date of Grant	# of Shares	Closing Price on Date of Grant	Vesting Date	Grant Date $ Value
M. D. Serra	02/09/05	105,000	26.78	(*)	2,811,900
	02/18/04	75,000	25.55	03/15/05	1,916,250
	09/11/03	100,000	16.46	09/11/04	1,646,000
	09/11/03	100,000	16.46	09/11/05	1,646,000
	02/02/03	240,000	10.10	02/03/06	2,424,000
R. T. Mina	03/23/05	40,000	28.14	03/15/08	1,125,600
	04/01/04	75,000	25.23	03/15/07	1,892,250
	02/02/03	100,000	10.10	02/03/06	1,010,000
G. M. Bahler	04/01/04	30,000	25.23	03/15/07	756,900
	04/16/03	30,000	10.25	04/16/06	307,500
J. L. Berk	04/16/03	30,000	10.25	04/16/06	307,500
L. J. Petrucci	04/01/04	30,000	25.23	03/15/07	756,900
	04/16/03	30,000	10.25	04/16/06	307,500
B. L. Hartman	03/23/05	25,000	28.14	Forfeited	703,500
	04/01/04	30,000	25.23	Forfeited	756,900
	04/16/03	30,000	10.25	Forfeited	307,500

* Award vests over a three-year period, as follows: 35,000 shares on 3/15/06; 35,000 shares on 3/15/07; and 35,000 shares on 2/1/08.

- **Dividends Paid on Unvested Restricted Stock**. The named executive officers received non-preferential dividends paid on the shares of unvested restricted stock that they held during the covered fiscal years, as itemized in the table below.

Name	Fiscal Year	Dividends Paid $
M. D. Serra	2005	123,675
	2004	117,825
	2003	76,500
R. T. Mina	2005	67,725
	2004	44,625
	2003	30,000
G. M. Bahler	2005	18,900
	2004	15,300
	2003	9,000
J. L. Berk	2005	9,450
	2004	7,650
	2003	7,500
L. J. Petrucci	2005	18,900
	2004	15,300
	2003	4,500
B. L. Hartman	2005	19,125
	2004	15,300
	2003	18,000

(d) **Long-Term Incentive Plan Payouts**. The amounts stated in this column reflect payments made to the executives under the Company's Long-Term Incentive Compensation Plan. The 2005 payouts were paid for the 2003-2005 Performance Period; the 2004 payouts were for the 2002-2004 Performance Period; and the payouts for 2003 were for the 2001-2003 Performance Period. Although Mr. Hartman participated in the Long-Term Plan, his award for the 2003-2005 Performance Period was cancelled upon the termination of his employment.

(e) **All Other Compensation**. This column includes, where applicable, the dollar value of the premium we paid for a universal life insurance policy for the benefit of the named executive and the dollar value of the Company's matching contribution under the 401(k) Plan made to the named executive's account in shares of Common Stock. The shares of Common Stock for the matching contributions for 2005, 2004, and 2003 were valued at $23.40, $26.93, and $23.45 per share, respectively. This column also includes the severance payment for Mr. Hartman, which is payable in June 2006, under the terms of his severance agreement described on Page 26.

Name	Year	Life Insurance Premium	Employer Matching Contribution Under 401(k) Plan	Severance Payment
M. D. Serra	2005	$ -0-	$2,100	$ —
	2004	-0-	1,738	—
	2003	-0-	2,000	—
R. T. Mina	2005	4,287	2,100	—
	2004	3,225	1,738	—
	2003	2,998	-0-	—
G. M. Bahler	2005	3,075	2,100	—
	2004	2,130	1,738	—
	2003	2,049	2,000	—
L. J. Petrucci	2005	2,852	2,100	—
	2004	1,963	-0-	—
	2003	1,883	-0-	—
B. L. Hartman	2005	7,137	-0-	650,500
	2004	5,628	1,738	—
	2003	5,817	2,000	—

Long-Term Incentive Plan — Awards in Last Fiscal Year(a)

Name	Number of Shares, Units or Other Rights(#)	Performance Period Until Payout	Estimated Future Payouts Under Non-Stock Price-Based Plan		
			Threshold($)	Target($)	Maximum($)
M. D. Serra	1,500,000	2005-2007	337,500	1,350,000	2,700,000
R. T. Mina	800,000	2005-2007	180,000	720,000	1,440,000
G. M. Bahler	494,700	2005-2007	111,308	445,230	890,460
J. L. Berk	453,100	2005-2007	101,948	407,790	815,580
L. J. Petrucci	442,100	2005-2007	99,473	397,890	795,780
B. L. Hartman	650,500	2005-2007	N/A	N/A	N/A

(a) The named executive officers, excluding B. L. Hartman, participate in the Long-Term Incentive Compensation Plan (the "Long-Term Plan"). Mr. Hartman participated in the Long-Term Plan while he was a senior officer of the Company. Individual target awards under the Long-Term Plan are expressed as a percentage of the participant's Annual Base Salary. In 2005 the Compensation and Management Resources Committee approved awards to the participants for the Performance Period of 2005–2007. The amounts shown in the table above under the column headed "Number of Shares, Units or Other Rights" represent the annual rate of base salary for 2005 for each of the named executive officers. The amounts shown in the columns headed "Threshold," "Target," and "Maximum" represent 22.5 percent, 90 percent and 180 percent, respectively, of each of the named executive officers' annual base salary rate in the first year of the Performance Period and represent the amount that would be paid to the participant at the end of the applicable Performance Period if the Company achieves the established goals. Mr. Hartman is not eligible for any payment under the Long-Term Plan since his employment terminated before the end of this Performance Period.

The principal features of the Long-Term Plan are described beginning on Page 36.

Option Grants in Last Fiscal Year

Name	Individual Grants(a)				
	Number of Securities Underlying Options Granted(#)	Percent of Total Options Granted to Employees in Fiscal Year	Exercise Price ($/Share)	Expiration Date	Grant Date Present Value($)(b)
M. D. Serra	115,000	11.6	27.01	2/09/15	744,240
R. T. Mina	50,000	5.0	28.155	3/23/15	351,504
G. M. Bahler	25,000	2.5	28.155	3/23/15	175,753
J. L. Berk	25,000	2.5	28.155	3/23/15	175,753
L. J. Petrucci	25,000	2.5	28.155	3/23/15	175,753
B. L. Hartman (c)	25,000	2.5	28.155	(c)	175,753

(a) During 2005 the Compensation and Management Resources Committee granted stock options to the named executive officers under the 1998 Stock Option and Award Plan (the "1998 Award Plan") and the 2003 Stock Option and Award Plan (the "2003 Award Plan").

The per-share exercise price of each stock option may not be less than the fair market value of a share of Common Stock on the date of grant. In general, no portion of any stock option may be exercised until the first anniversary of its date of grant. The options granted during 2005 become exercisable in three substantially equal installments, beginning on the first annual anniversary of the date of grant. If a participant retires, becomes disabled, or dies while employed by the Company or one of its subsidiaries, all unexercised options that are then immediately exercisable, plus those options that would have become exercisable on the next succeeding anniversary of the date of grant of each option, will remain (or become) immediately exercisable as of that date. Moreover, upon the occurrence of a "Change in Control," all outstanding options will become immediately exercisable as of that date.

In general, options may remain exercisable for up to three years following a participant's retirement or termination due to disability, and for up to one year for any other termination of employment for reasons other than cause. However, under no circumstances may an option remain outstanding for more than ten years from its date of grant.

Options are also outstanding under the 1995 Stock Option and Award Plan (the "1995 Award Plan"). The terms of the 1995 Award Plan are substantially the same as the terms of the 1998 Award Plan and the 2003 Award Plan. Under the terms of the 1995 Award Plan, no further awards may be granted under this plan as of March 8, 2005.

(b) Values were calculated as of the date of grant using a Black-Scholes option pricing model. The values shown in the table are theoretical and do not necessarily reflect the actual values that the named executive officers may ultimately realize. Any actual value to the officer will depend on the extent to which the market value of the Company's Common Stock at a future date exceeds the option exercise price. In addition to the fair market value of the Common Stock on the date of grant and the exercise price, which are identical, the following assumptions were used to calculate the values shown in the table: a weighted-average risk-free interest rate of 3.99 percent; a stock price volatility factor of 28 percent; a 3.8 year weighted-average expected award life and a 1.1 percent dividend yield. The assumptions and calculations used for the model are consistent with the assumptions for reporting stock option valuations used in the Company's 2005 Annual Report on Form 10-K.

(c) In connection with the termination of Mr. Hartman's employment on December 18, 2005, the vesting of one-third of this stock option grant (8,333 shares) was accelerated, so that Mr. Hartman was eligible to exercise these shares during the period of December 18, 2005 to March 18, 2006. The balance of this stock option grant (16,667 shares) was automatically cancelled on December 18, 2005.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

Name	Shares Acquired on Exercise(#)	Value Realized($)	Number of Securities Underlying Unexercised Options at FY-End(#)		Value of Unexercised In-the-Money Options at FY-End($)(a)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
M. D. Serra	0	N/A	799,999	215,001	7,148,329	216,171
R. T. Mina	0	N/A	239,170	136,668	1,911,893	420,342
G. M. Bahler	14,500	226,604	195,334	59,668	1,260,296	165,742
J. L. Berk	0	N/A	207,332	59,668	1,156,438	165,742
L. J. Petrucci	0	N/A	42,833	59,668	271,836	165,742
B. L. Hartman (b)	68,334	443,327	67,166	0	0	0

(a) The fair market value (the average of the high and low prices of the Company's Common Stock) on Friday, January 27, 2006, the last business day of 2005, was $22.675.

(b) The options exercised by Mr. Hartman during the 2005 fiscal year were exercised following the termination of his insider status with Foot Locker.

RETIREMENT PLANS

Foot Locker Retirement Plan

The Company maintains the Foot Locker Retirement Plan (the "Retirement Plan"), a defined benefit plan with a cash balance formula, which covers associates of the Company and substantially all of its United States subsidiaries. All qualified associates at least 21 years of age are covered by the Retirement Plan, and plan participants become fully vested in their benefits under this plan generally upon completion of five years of service or upon attainment of normal retirement age while actively employed.

Under the cash balance formula, each participant has an account, for record keeping purposes only, to which credits are allocated annually based upon a percentage of the participant's W-2 Compensation, as defined in the Retirement Plan. This percentage is determined by the participant's years of service with the Company as of the beginning of each calendar year. The following table shows the percentage used to determine credits at the years of service indicated.

Years of Service	Percent of All W-2 Compensation	+	Percent of W-2 Compensation Over $22,000
Less than 6	1.10		0.55
6–10	1.50		0.75
11–15	2.00		1.00
16–20	2.70		1.35
21–25	3.70		1.85
26–30	4.90		2.45
31–35	6.60		3.30
More than 35	8.90		4.45

In addition, all balances in the participants' accounts earn interest at the fixed rate of 6 percent, which is credited annually. At retirement or other termination of employment, an amount equal to the vested balance then credited to the account under the Retirement Plan is payable to the participant in the form of a qualified joint and survivor annuity (if the participant is married) or a life annuity (if the participant is not married). The participant may elect to waive the annuity form of benefit described above and receive benefits under the Retirement Plan upon retirement in an optional annuity form or an immediate or deferred lump sum, or, upon other termination of employment, in a lump sum. Participants may elect one of the optional forms of benefit with respect to the accrued benefit as of December 31, 1995 if the individual participated in the Retirement Plan as of that date.

Foot Locker Excess Cash Balance Plan

The Internal Revenue Code limits annual retirement benefits that may be paid to, and compensation that may be taken into account in the determination of benefits for, any person under a qualified retirement plan such as the Retirement Plan. Accordingly, for any person covered by the Retirement Plan whose annual retirement benefit, calculated in accordance with the terms of the Retirement Plan, exceeds the limitations of the Internal Revenue Code, the Company has adopted the Foot Locker Excess Cash Balance Plan (the "Excess Plan"). The Excess Plan is an unfunded, nonqualified benefit plan, under which the individual is paid the difference between the Internal Revenue Code limitations and the retirement benefit to which he or she would otherwise be entitled under the Retirement Plan.

Foot Locker Supplemental Executive Retirement Plan

In addition, the Foot Locker Supplemental Executive Retirement Plan (the "SERP"), which is an unfunded, nonqualified benefit plan, provides for payment by the Company of supplemental retirement, death and disability benefits to certain executive officers and certain other key employees of the Company and its subsidiaries. The named executive officers, excluding Bruce L. Hartman, and three of the other executive officers of the Company currently participate in the SERP. The Compensation and

Management Resources Committee sets an annual targeted incentive award under the SERP for each participant consisting of a percentage of salary and bonus based on the Company's performance against target. Achievement of the target causes an 8 percent credit to a participant's account. The applicable percentage decreases proportionately to the percentage of the Company's performance below target, but not below 4 percent, and increases proportionately to the percentage of the Company's performance above target, but not above 12 percent. Participants' accounts accrue simple interest at the rate of 6 percent annually.

Payment of Retirement Benefits

Table I below provides the estimated annual benefit for each of the named executive officers, excluding Mr. Hartman, stated as a single life annuity under the Retirement Plan, the Excess Plan, and the SERP. The estimated benefit projections in this section assume each person's continued employment with the Company to his or her normal retirement date (age 65) and that compensation earned during each year after 2005 to the individual's normal retirement date remains the same as compensation earned by him or her during 2005. The projections in Table I are based upon a single life annuity determined by converting the account balance projected to normal retirement date using a 6 percent interest rate at the assumed retirement age. The applicable interest rate is the rate specified in Section 417(e)(3)(A)(ii)(II) of the Internal Revenue Code, but not less than 6 percent.

Table II below states the actual benefit for Mr. Hartman under the Retirement Plan and the Excess Plan paid to him as a lump sum in connection with the termination of his employment in 2005. Mr. Hartman was not eligible to receive a benefit under the SERP.

Table I. Projections at Normal Retirement Date

Named Executive Officer	Total Annual Benefit For Years 1-3 Following Retirement(a)	Total Annual Benefit For Years 4 and Subsequent Following Retirement(b)
M. D. Serra	$ 950,838	$ 58,259
R. T. Mina	1,522,027	346,350
G. M. Bahler	619,006	137,480
J. L. Berk	694,626	69,862
L. J. Petrucci	670,455	75,889

(a) The amounts stated in the table above for years 1-3 following retirement include the SERP benefits, payable as a lump sum spread over a three-year period. The SERP projections include a 4 percent credit to the participants' accounts for 2005 and assume an annual 8 percent credit going forward.

(b) Beginning with the fourth year following retirement, the individuals' annual benefits will not include any SERP payments and, therefore, their annual benefits for those years will be reduced accordingly. The amounts stated in this column reflect estimated benefits payable to these executives from the Retirement Plan and the Excess Plan only.

Table II. Bruce L. Hartman

Named Executive Officer	Actual Total Lump Sum Benefit Paid from Retirement Plan and Excess Plan
B. L. Hartman	$151,573

EMPLOYMENT CONTRACTS AND TERMINATION OF EMPLOYMENT AND CHANGE IN CONTROL ARRANGEMENTS

We have employment agreements with the named executive officers. The material terms of these agreements are described below.

M. D. Serra

The Company has entered into an employment agreement with Matthew D. Serra as Chairman of the Board, President and Chief Executive Officer.

- ***Term***. The term of the agreement began on January 30, 2005 and ends on February 2, 2008. Each January of the term beginning in January 2007, the term of Mr. Serra's employment agreement will be extended for one additional year unless either Mr. Serra or the Board of Directors gives notice of intention not to extend the term.
- ***Annual Base Salary and Bonus***. We will pay Mr. Serra an annual base salary of not less than $1.5 million during the term of his agreement. Mr. Serra's annual bonus at target is 125 percent of his base salary, and his bonus at target under the long-term incentive compensation plan for any three-year performance period is 90 percent of his base salary at the beginning of the performance period.
- ***Stock Options and Restricted Stock***. Mr. Serra was granted an award of restricted stock covering 105,000 shares and a stock option covering 115,000 shares. These awards vest in three substantially equal annual installments and are reflected in the Summary Compensation Table on Page 16. Mr. Serra may receive additional stock option or restricted stock awards during the contract term, as may be determined by the Compensation and Management Resources Committee.
- ***Benefits Plans and Perquisites***. Mr. Serra is entitled to participate in all bonus, incentive and equity plans offered to senior executives. He is also eligible to participate in all pension, welfare, and fringe benefit plans and perquisites offered to senior executives. The benefits and perquisites available to Mr. Serra include:
  - Company-paid life insurance in the amount of the annual base salary
  - Long-term disability insurance coverage of $25,000 per month
  - Annual out-of-pocket medical expense reimbursement of up to $20,000
  - Financial planning expenses of up to $7,500 annually
  - Reimbursement of dues and membership fees of one private club of up to $20,000 per year
  - Automobile expense allowance of up to $40,000 annually and the provision of the services of a driver

  Although Mr. Serra is eligible for these perquisites under his agreement, Mr. Serra chose not to participate in some of these benefits in 2005.
- ***Payment and Benefits on Termination***.

  Termination for Cause, Death or Disability. If Mr. Serra's employment is terminated for Cause, death or disability, he would receive payment of his annual base salary through his termination date. He would also receive those benefits, if any, that the Company provides under its policies to employees whose employment is terminated for these reasons and any benefits required to be provided under the terms of any benefit or incentive plan.

  Termination Without Cause or for Good Reason. If Mr. Serra's employment is terminated by us without Cause or by Mr. Serra for Good Reason, or if we breach any material provision of his employment agreement and, as a result, Mr. Serra elects to terminate his employment, he would receive the following payments and benefits:
  - his base salary to the end of the contract term,
  - his annual bonus at target, prorated to his termination date,

- his long-term bonus at target for the performance period ending in the year his termination occurred, prorated to his termination date,
- outplacement services for a period of one year following his termination date, and
- all unvested shares of restricted stock would vest.

Termination Following a Change in Control. If Mr. Serra's employment terminates following a Change in Control, as provided under the agreement, he would receive the following payments and benefits, but the minimum amount of cash payments to Mr. Serra may not be less than 1.5 times his base salary and annual bonus at target:

- his base salary to the end of the contract term,
- his annual bonus at target, prorated to his termination date,
- his long-term bonus at target for the performance period ending in the year his termination occurred, prorated to his termination date,
- outplacement services for a period of one year following his termination date, and
- all unvested shares of restricted stock and stock options would vest.

If the payments or benefits received by Mr. Serra following a Change in Control are subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), we would make a gross-up payment to Mr. Serra in order to put him in the same after-tax position he would have been in had no excise tax been imposed. In addition to termination of the employment by the Company or by Mr. Serra for Good Reason, Mr. Serra may trigger the termination of his employment within the 30-day period commencing three months following a Change in Control and, in that case, he would be entitled to receive the payments and benefits specified above.

- ***Non-Competition.*** Mr. Serra is subject to a non-competition and non-solicitation provision for two years following the termination of his employment agreement.

R. T. Mina, G. M. Bahler, J. L. Berk, and L. J. Petrucci

We also have employment agreements with Richard T. Mina, as President and Chief Executive Officer of Foot Locker, Inc.-U.S.A., and with Gary M. Bahler, Jeffrey L. Berk and Laurie J. Petrucci, as Senior Vice Presidents of the Company.

- ***Term.*** The current term of Mr. Mina's agreement ends on May 1, 2007 and will automatically be extended for additional one-year periods unless notice is given by the Company or Mr. Mina that the term will not be extended. The current terms of the agreements with Ms. Petrucci and Messrs. Bahler and Berk end on December 31, 2006 and will automatically be extended for additional one-year periods unless notice is given by the Company that the term will not be extended.
- ***Benefits Plans and Perquisites.*** The executives are entitled to participate in all benefit plans and arrangements in effect on the effective date of their agreements, including the retirement plans, annual and long-term incentive compensation plans, and medical, dental and disability plans, as well as any other plans subsequently offered to senior executives of Foot Locker.
- ***Payments and Benefits on Termination.***

  For Cause, Death or Disability. If the employment of any of the executives is terminated for Cause, death or disability, he or she would receive payment of his or her annual base salary through the termination date. The executive would also receive those benefits, if any, that the Company provides under its policies to employees whose employment is terminated for these reasons and any benefits required to be provided under the terms of any benefit or incentive plan.

  Without Cause or Good Reason. If the Company terminates the employment of any of the executives without Cause or if the executive terminates his or her employment for Good Reason, we will pay the executive his or her base salary through the termination date and a severance benefit. The severance benefit would be equal to the sum of two weeks' salary plus $\frac{1}{26}$ of his or her annual bonus at target multiplied by the executive's years of service, with a minimum severance benefit of 52 weeks' salary.

Change in Control. If the employment of any of the executives is terminated by him or her for Good Reason or by the Company without Cause within 24 months following a Change in Control, then the executive would be entitled to a severance benefit calculated using the same formula described in the preceding paragraph, except that the minimum severance benefit would be 104 weeks' salary plus two times the executive's annual bonus at target. In addition, all unvested shares of restricted stock and stock options would vest.

If payments or benefits received by any of the executives under these circumstances are subject to the excise tax imposed by Section 4999 of the Internal Revenue Code, then we would automatically reduce his or her payments and benefits to an amount equal to $1 less than the amount that would subject the executive to the excise tax, provided that this reduced amount would result in a greater benefit to the executive compared to the unreduced amount on a net after-tax basis.

- ***Continuation of Benefits.*** The executives would be eligible to continue to participate during their severance periods in any group medical, dental or life insurance plan he or she participated in prior to termination under substantially the same terms as an active employee. This extended participation would continue for 52 weeks or, following a change in control, for 104 weeks, unless the executive becomes eligible for a future employer's plans or violates the post-employment non-compete and confidentiality provisions before the end of the severance period.
- ***Non-Competition.*** Mr. Mina is subject to a non-competition and non-solicitation provision for two years following the termination of his employment, and each of the other executives is subject to a one-year non-competition and non-solicitation provision.

B. L. Hartman

We had an employment agreement with Mr. Hartman as Executive Vice President and Chief Financial Officer in the same form as the agreements described above for the named executive officers other than Mr. Serra. Mr. Hartman's service as Executive Vice President and Chief Financial Officer of the Company ended at the close of business on November 18, 2005. On December 21, 2005, the Company and Mr. Hartman entered into a letter agreement (the "Letter Agreement") regarding his resignation, and the termination of his employment effective December 18, 2005 (the "Termination Date"). The Letter Agreement provided for:

- a severance payment of $650,500 to Mr. Hartman payable in June 2006, which reflects the amount of severance provided for under his Employment Agreement;
- a non-competition period, including a prohibition on hiring employees of the Company, for one year following the Termination Date;
- the accelerated vesting of stock options covering a total of 32,334 shares at exercise prices ranging from $10.245 to $28.155, which were scheduled to vest in March and April 2006;
- continuation of participation in certain benefit programs for one year following his employment termination date, including the medical, drug, dental, and life insurance programs for active employees of the Company, the executive medical reimbursement program, the executive financial planning program, the automobile expense reimbursement program, and the executive life insurance program;
- a General Release from Mr. Hartman to the Company; and
- the forfeiture of all unvested shares of restricted stock previously granted to Mr. Hartman.

Mr. Hartman was not eligible to receive bonus payments under the Annual Plan for 2005 or under the Long-Term Plan for any performance period ending after his termination date.

Trust Agreement

The Company has established a trust (the "Trust") in connection with certain of its benefit plans, arrangements, and agreements, including certain of those described above, and other benefit plans, agreements or arrangements that subsequently may be covered (collectively, the "Benefit Obligations"). Under the Trust agreement, in the event of a Change in Control of the Company (as defined in the Trust agreement), the trustee would pay to the persons entitled to the Benefit Obligations, out of funds held in the Trust, the amounts to which they may become entitled under the Benefit Obligations. Upon the occurrence of a Potential Change in Control of the Company (as defined in the Trust agreement), the Company is required to fund the Trust with an amount sufficient to pay the total amount of the Benefit Obligations. Following the occurrence, and during the pendency, of a Potential Change in Control, the trustee is required to make payments of Benefit Obligations to the extent these payments are not made by the Company.

Compensation Committee Interlocks and Insider Participation

During 2005 the following individuals (none of whom had been an officer or employee of the Company or any of its subsidiaries) served on the Compensation and Management Resources Committee: Purdy Crawford, Philip H. Geier Jr., James E. Preston, Christopher Sinclair and Cheryl Nido Turpin. There were no interlocks with other companies within the meaning of the SEC's proxy rules. As noted on Page 9, Mr. Crawford is Counsel to the Canadian law firm of Osler, Hoskin & Harcourt LLP, which provides legal services to the Company. Mr. Crawford does not participate in decisions regarding awards to executives covered by Section 16(a) of the Securities Exchange Act of 1934 under the Company's 1998 Award Plan, the 2003 Award Plan or, prior to its expiration, the 1995 Award Plan.

Report of the Compensation and Management Resources Committee on Executive Compensation

The Compensation and Management Resources Committee of the Board of Directors, composed of the independent directors named below, has responsibility for all compensation matters involving the Company's executive officers, and for significant elements of the compensation of the chief executive officers of its business units.

Compensation Policy

The Company's executive compensation program is designed to attract, motivate, and retain talented retail industry executives in order to maintain and enhance the performance of the Company and its return to shareholders. The Committee believes that executive compensation should be balanced between annual and long-term compensation and that a substantial portion of the compensation of the Company's executive officers, whether paid out currently or on a long-term basis, should be dependent on the Company's performance. It is the Committee's view that more senior officers should have a greater portion of their compensation at risk, whether through incentive programs based upon the achievement of performance targets or through stock price appreciation. The principal components of the executive compensation program are as follows:

I. Annual Compensation

Base Salary. Base salaries for executive officers are determined based on a number of factors, including the responsibilities of the position, the performance of the executive, and base salaries for comparable positions at companies in the retail and athletic footwear and apparel industries.

Annual Bonus. Executive officers participate in the annual bonus program, which provides for payment of a percentage multiple of the executive's base salary depending upon the Company's performance in relation to targets established by the Committee at the beginning of each plan year. In recent years, including 2005, these targets have been a combination of pre-tax income and return-on-invested-capital. These performance targets are based on the business plan and budget for the year reviewed and approved by the Finance and Strategic Planning Committee and the Board of Directors.

II. Long-Term Compensation

Long-Term Bonus. Executive officers participate in the long-term bonus program, which provides for payment of a percentage multiple of the executive's base salary at the beginning of each three-year performance period depending upon the Company's performance over the period in relation to targets established by the Committee at the beginning of each period. For recent performance periods, including that for 2005-2007, these targets have been based on three-year average return-on-invested-capital. These performance targets are based on the three-year plan reviewed and approved by the Finance and Strategic Planning Committee and the Board of Directors at the beginning of each performance period.

Stock Awards. The Company makes grants of stock options and, in some cases, restricted stock to executive officers in order to strengthen the tie between an executive officer's compensation opportunity and the shareholders' interest in increasing the price of Common Stock, and for retention purposes. Stock options are granted at fair market value on the grant date and are normally exercisable in one-third increments in each of the first three years following the date of grant. Restricted stock awards vest after an executive's continued employment by the Company for a specified period.

The Committee, advised by an independent, nationally recognized compensation consultant that reports directly to the Committee, at least annually conducts a review of the Company's executive compensation program, including the compensation of its Chief Executive Officer. Based upon those reviews, the Committee believes that the Company's executive compensation program is competitive, and is reasonable and appropriate for the Company, taking into consideration its revenues, profitability, market position, complexity, and multinational operations, and that the program is effective in tying executive compensation to performance. The Company has a similar compensation program for other officers and for the senior management of its business units.

Except in the case of mid-year promotions or new hires, or other special circumstances, the Committee makes decisions on base salaries, incentive plan targets and awards, and stock awards at a meeting held in the first quarter of each year. The Chief Executive Officer makes recommendations to the Committee with regard to base salaries and stock awards for senior officers other than himself. Executives participate in the Annual Incentive Compensation Plan and the Long-Term Incentive Compensation Plan based upon their position, and target awards under those plans, as a percentage of base salary, are also based on position. In making compensation decisions, the Committee considers information developed through its annual compensation review, including national and industry compensation trends and executive compensation at peer companies, which the Committee has had an opportunity to consider at earlier meetings. In addition, the Committee considers the Company's overall performance and individual performance and responsibilities. The Committee reviews a tally sheet indicating each element of compensation paid to the executive in the prior year and each element proposed for the upcoming year, as well as total compensation in each year.

In February 2006, the Board of Directors adopted stock ownership guidelines for directors and senior executives. These guidelines, which are described more fully on Page 6, call for the Chief Executive Officer to hold shares having a value at least equal to four times base salary and other senior executives to hold shares having a value at least equal to two times base salary. Currently the Chief Executive Officer and most other executives covered by the guidelines are in compliance with them.

Chief Executive Officer's Compensation

The compensation reported for 2005 for Mr. Serra, the Company's Chairman of the Board and Chief Executive Officer, was based on the same policies, described above, that apply to all of the Company's executive officers.

- Mr. Serra's base salary of $1,500,000, unchanged from his base salary in 2004, was established based upon his responsibilities, his performance, and salaries for comparable positions.

- Neither Mr. Serra nor the other corporate officers received an annual bonus payment for 2005, as the Company's pre-tax income and return-on-invested capital results for 2005 did not meet the threshold established by the Committee at the beginning of the year for a payment under the annual plan. This compares to an annual bonus payment of $1,662,000 to Mr. Serra in 2004 when the Company slightly exceeded its pre-tax income and return-on-invested-capital plan for the year.

• Mr. Serra's long-term bonus payment of $1,617,120 was calculated in the same manner as that of other participants in the Long-Term Incentive Compensation Plan, and was the result of the Company exceeding its return-on-invested-capital plan for 2003-2005. This compares to a long-term bonus payment of $2,117,700 in 2004, when the Company significantly exceeded its return-on-invested-capital plan for the performance period.

• The stock option grant of 115,000 shares at $27.01 per share, the fair market value on the date of grant, made to Mr. Serra in February 2005 reflected Mr. Serra's performance, responsibilities and his ability, through his efforts, to improve the value of the Company's Common Stock. Consistent with stock option grants made to other executives, this grant vests in three equal annual installments. The value of the stock option grant is wholly dependent on increases in the price of the Company's Common Stock over the price on the date of grant.

• The restricted stock grant of 105,000 shares made to Mr. Serra in February 2005 reflected Mr. Serra's performance, responsibilities, the Company's desire to retain his services, and his ability, through his efforts, to improve the value of the Company's Common Stock. A portion of the value that Mr. Serra is expected to receive on the vesting of the restricted shares is dependent on increases in the price of the Company's Common Stock.

Consistent with the Company's executive compensation policies, the great majority of Mr. Serra's compensation is at risk, dependent upon the Company's performance or the share price of its Common Stock.

In determining Mr. Serra's compensation, the Committee considered appropriate compensation for an executive of Mr. Serra's background and experience, Mr. Serra's performance as the Company's Chief Executive Officer, the benefits to the Company and its shareholders that are expected to result from retaining his services as the Company's Chief Executive Officer and providing him with a meaningful compensation opportunity tied to the performance of the Company and the price of its Common Stock, and the compensation of chief executive officers of other companies in the retail and athletic footwear and apparel industries. This Committee, acting jointly with the Nominating and Corporate Governance Committee, annually reviews Mr. Serra's performance as the Company's Chief Executive Officer and the results of this review are one factor in determining Mr. Serra's compensation.

One Million Dollar Pay Deductibility Cap

In general, it is the Company's position that compensation paid to its executive officers should be fully deductible for U.S. tax purposes, and the Company has structured its bonus and stock option programs so that payments made under them are deductible. In certain instances, however, the Committee believes that it is in the best interests of the Company and its shareholders to have the flexibility to pay compensation that is not deductible under the limitations set by Section 162(m) of the Internal Revenue Code in order to provide a compensation package consistent with the executive compensation policies discussed in this report. In particular, that portion of Mr. Serra's base salary that exceeds $1,000,000 and the value of restricted stock awards made to Mr. Serra and, potentially, a portion of the restricted stock awards made to the other executive officers named in the compensation table are not expected to be deductible. It is the Committee's view that the benefits of securing the services of Mr. Serra and these officers, and their potential contribution to the performance of the Company, outweigh the Company's inability to obtain a deduction for those elements of compensation.

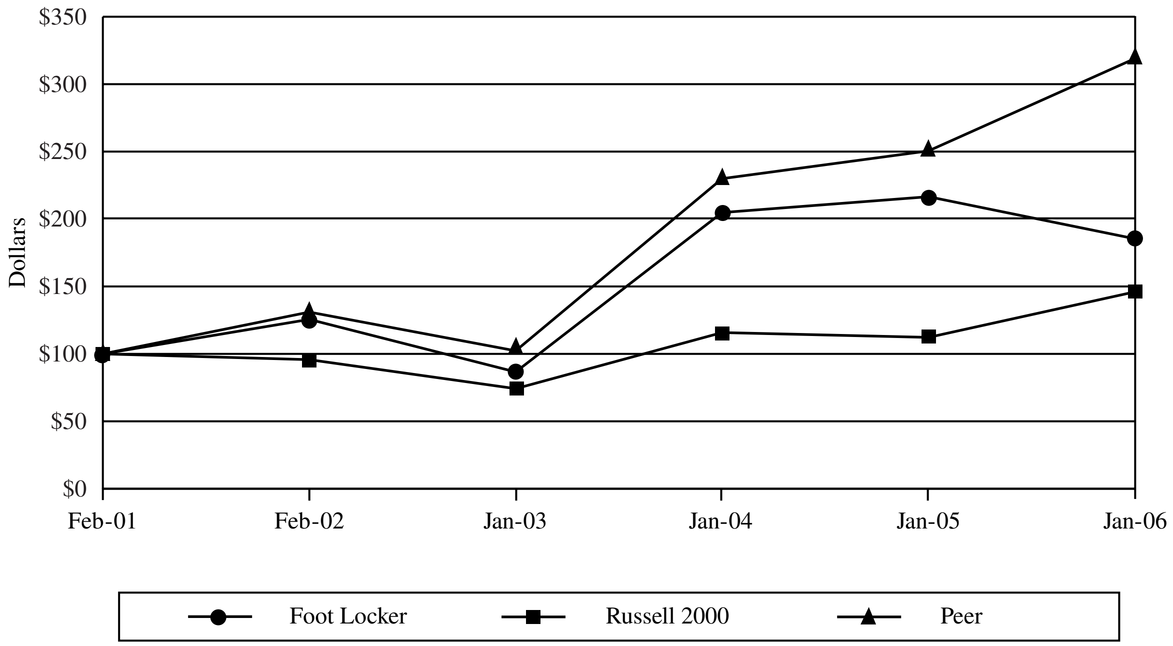
James E. Preston, *Chairman*
Purdy Crawford
Philip H. Geier Jr.
Christopher A. Sinclair
Cheryl Nido Turpin

Performance Graph

The following graph compares the cumulative total shareholder return on the Company's Common Stock with the Russell 2000 Index and a selected peer group from February 2, 2001 through January 27, 2006. The peer group comprises:

- Dick's Sporting Goods, Inc.
- The Finish Line, Inc.
- Hibbett Sporting Goods, Inc.
- Genesco, Inc., whose business includes operations outside of athletic footwear and apparel retailing, and
- The Sports Authority, Inc., which announced on January 23, 2006 that it had agreed to go private through an acquisition by Leonard Green & Partners LP and certain members of its senior management.

We believe that this selected group reflects our peers as retailers in the athletic footwear and apparel industry.



	2/2/01	2/1/02	1/31/03	1/30/04	1/28/05	1/27/06
Foot Locker	100.00	125.579	83.609	204.801	216.556	185.348
Russell 2000	100.00	95.721	74.211	115.805	122.233	146.006
Peer Group	100.00	131.005	102.274	229.944	250.527	319.012

Equity Compensation Plan Information

The following table provides information as of January 28, 2006 for compensation plans under which equity securities may be issued.

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column(a))
Equity Compensation Plans Approved by Security Holders	5,962,107	$18.45	8,531,450(1)(2)
Equity Compensation Plans Not Approved by Security Holders	0	0	0
Total	5,962,107	$18.45	8,531,450

(1) Includes securities available for future issuance under shareholder-approved compensation plans other than upon the exercise of an option, warrant or right, as follows:

- 2,762,647 shares under the 2003 Employees Stock Purchase Plan (the "2003 Purchase Plan"), and
- 330,894 shares under the 2002 Directors Stock Plan.

Participating employees under the 2003 Purchase Plan may contribute up to 10 percent of their annual compensation to acquire shares of the Company's Common Stock at 85 percent of the lower market price on one of two specified dates in each plan year.

The 2002 Directors Stock Plan provides for, in addition to stock option grants to non-employee directors, the payment of their annual retainer fees in stock and for the voluntary deferral of all or a portion of their annual retainer fees into stock units. Directors are required to receive at least 50 percent of their annual retainer fees in the form of stock. The total number of shares authorized under the 2002 Directors Stock Plan covers the issuance of stock in payment of the non-employee directors' annual retainer fees, stock option grants, and stock units allocated under this plan without specifying the number of shares that may be issued or awarded in any of these forms. As of January 28, 2006, there were 330,894 shares available under the 2002 Directors Stock Plan, all of which are included in column (c) of the table. As of this date, 18,820 shares under the 2002 Directors Stock Plan have been allocated into the deferred stock unit accounts.

(2) The 1998 Stock Option and Award Plan (the "1998 Award Plan") and the 2003 Stock Option and Award Plan (the "2003 Award Plan") contain limitations within their respective total number of authorized shares on the number of shares that may be awarded to participants in the form of restricted stock or Other Stock-Based Awards, and these shares are included in the total number disclosed in column (c). The 1998 Award Plan limits the number of shares that may be awarded in the form of restricted stock and Other Stock-Based Awards to 3,000,000 shares, of which 1,722,565 shares remain available for issuance, and the 2003 Award Plan limits the number of shares that may be awarded in the form of restricted stock and Other Stock-Based Awards to 1,000,000 shares, of which 620,000 shares remain available for issuance.

The 1995 Stock Option and Award Plan (the "1995 Award Plan"), limited the number of shares that could be awarded as restricted stock to 1,500,000 shares. Under the terms of the 1995 Award Plan, no further awards may be made from this plan as of March 8, 2005.

Payouts under the Long-Term Incentive Compensation Plan also may be made in shares of Common Stock, and these shares would be issued as Other Stock-Based Awards under the 1998 Award Plan or the 2003 Award Plan.

PROPOSAL 1

ELECTION OF DIRECTORS

Foot Locker's Certificate of Incorporation provides that the members of our Board of Directors be divided into three classes serving staggered three-year terms, each class to be as nearly equal in number as the other two.

The terms of the four directors who constitute Class III expire at the 2006 annual meeting upon the election and qualification of their successors. Alan D. Feldman, Jarobin Gilbert Jr., David Y. Schwartz and Cheryl Nido Turpin will be considered for election as directors in Class III, each to hold office for a three-year term expiring at the annual meeting in 2009. Matthew M. McKenna has been nominated by the Board to stand for election as a director in Class II for a two-year term expiring at the annual meeting in 2008. Each nominee has been nominated by the Board of Directors for election and has consented to serve for the specified term. Ms. Turpin and Messrs. Gilbert and Schwartz were elected to serve for their present terms at the 2003 annual meeting. Mr. Feldman was elected to his present term at the 2005 annual meeting. Mr. McKenna is not currently serving as a director. The seven remaining directors will continue in office, in accordance with their previous elections, until the expiration of their terms at the 2007 or 2008 annual meeting.

The Board has established a retirement policy for directors, which is described on Page 8. In accordance with this policy, the Nominating and Corporate Governance Committee has asked Mr. Crawford and Mr. Preston, who otherwise would have resigned from the Board at this annual meeting, to continue serving as directors.

If, prior to the annual meeting, any of the five nominees becomes unable to serve as a director for any reason, the persons designated as proxies on the enclosed proxy card will have full discretion to vote the shares represented by proxies held by them for another person to serve as a director in place of that nominee.

Biographical information follows for the five nominees and for each of the seven other directors of the Company whose present terms as directors will continue after the 2006 annual meeting. There are no family relationships among the directors, nominees, or executive officers of the Company.

The Board of Directors recommends that shareholders vote FOR the election to the Board of Directors of the nominees identified for election.

Nominee for Director
Term Expiring in 2008

Matthew M. McKenna. Age 55. Senior Vice President of Finance of PepsiCo, Inc. (global snack and beverage company) since August 6, 2001. He served as Senior Vice President and Treasurer of PepsiCo from March 30, 1998 until August 5, 2001. He is a director of PepsiAmericas, Inc. and is a member of the Management Committee of Pepsi Bottling Ventures LLC. He is also a member of the Board of Trustees of Hamilton College and serves on the Board of the Foundation for Purchase College of the State University of New York.

Nominees for Directors
Terms Expiring in 2009

Alan D. Feldman. Age 54. Director since 2005. President and Chief Executive Officer of Midas, Inc. (automotive repair and maintenance services) since January 13, 2003. He was an independent consultant from March 2002 to January 2003. Mr. Feldman previously held senior positions within McDonald's Corporation (restaurant and food services), including President and Chief Operating Officer of McDonald's Americas from March 2001 to March 2002 and President of McDonald's USA from July 1998 to March 2001. He is a director of Midas, Inc.

Jarobin Gilbert Jr. Age 60. Director since 1981. President and Chief Executive Officer of DBSS Group, Inc. (management, planning and trade consulting services) since 1992. He is a director of PepsiAmericas, Inc. and Midas, Inc. He is a trustee of Atlantic Mutual Insurance Company. Mr. Gilbert is also a director of Harlem Partnership, Inc. and a permanent member of the Council on Foreign Relations.

David Y. Schwartz. Age 65. Director since 2000. Independent business adviser and consultant, principally in the retail, distribution and service industries, since July 1997. He was a partner with Arthur Andersen LLP from 1972 until he retired from that public accounting firm in 1997. Mr. Schwartz is a director of Walgreen Co. and True Value Company.

Cheryl Nido Turpin. Age 58. Director since 2001. President and Chief Executive Officer of the Limited Stores (retail merchants) from June 1994 to August 1997. She was President and Chief Executive Officer of Lane Bryant, a subsidiary of The Limited, Inc., from January 1990 to June 1994. Ms. Turpin is a director of The Warnaco Group, Inc.

Directors Continuing in Office
Terms Expiring in 2007

James E. Preston. Age 72. Director since 1983. Chairman of the Board of Avon Products, Inc. (manufacture and sale of beauty and related products) from 1989 to May 6, 1999, and Chairman and Chief Executive Officer of Avon Products, Inc. from 1989 to June 1998. Mr. Preston is a director of ARAMARK Corporation.

Matthew D. Serra. Age 61. Director since 2000. The Company's Chairman of the Board since February 1, 2004, President since April 12, 2000 and Chief Executive Officer since March 4, 2001. He was the Company's Chief Operating Officer from February 9, 2000 to March 3, 2001.

Christopher A. Sinclair. Age 55. Director since 1995. Executive Chairman of the Board of Scandent Group Holdings, Mauritius (global provider of information technology services) since May 1, 2002, and Executive Chairman of the Board and Chief Executive Officer of its majority-owned subsidiary, Scandent Solutions Corporation, since November 1, 2005. Mr. Sinclair was Managing Director of Manticore Partners LLC (venture capital and advisory firm) from February 1, 2001 to December 2004 and an Operating Partner of Pegasus Capital Advisors (private equity firm) from June 1, 2000 to June 1, 2002. He is a director of Scandent Group Holdings, Mauritius, Scandent Solutions Corporation Ltd., Mattel, Inc., and eMerge Interactive, Inc.

Dona D. Young. Age 52. Director since 2001. Chairman of the Board, President and Chief Executive Officer of The Phoenix Companies, Inc. (provider of wealth management products and services to individuals and institutions). Mrs. Young has held the positions of Chairman of the Board since April 1, 2003, President since February 2000, and Chief Executive Officer since January 1, 2003. She served as Chief Operating Officer from February 2001 to December 31, 2002. Mrs. Young is also Chairman of the Board since April 1, 2003 and Chief Executive Officer since January 1, 2003 of Phoenix Life Insurance Company. She previously served as President of Phoenix Life Insurance Company from February 2000 to March 31, 2003 and Chief Operating Officer from February 2001 to December 31, 2002. Mrs. Young joined Phoenix Home Life Mutual Insurance Company in 1980 and served in various management and legal positions, including Executive Vice President and General Counsel from 1995 to 2000. She is a director of The Phoenix Companies, Inc. and Wachovia Corporation.

Directors Continuing in Office
Terms Expiring in 2008

Purdy Crawford. Age 74. Director since 1995. Chairman of the Board of Allstream Inc. (Canada) (telecommunications) from June 1999 to June 2004. Mr. Crawford is a director of Manitoba Telecom Services, Canadian National Railway Company, Maple Leaf Foods Ltd., and Seamark Asset Management Ltd. He is a director and trustee of Clearwater Seafoods Income Fund. He is counsel to the Canadian law firm of Osler, Hoskin & Harcourt LLP.

Nicholas DiPaolo. Age 64. Director since 2002. Vice Chairman of Bernard Chaus, Inc. (apparel designer and manufacturer) from November 1, 2000 to June 23, 2005; Chief Operating Officer of Bernard Chaus from November 1, 2000 to October 18, 2004. He was Chairman of the Board, President and Chief Executive Officer of Salant Corporation (diversified apparel company) from January 1991 until his retirement in 1997. Mr. DiPaolo is a director of JPS Industries and R.G. Barry Corporation.

Philip H. Geier Jr. Age 71. Director since 1994. Chairman of the Board and Chief Executive Officer of Interpublic Group of Companies, Inc. (advertising agencies and other marketing communication services) from 1980 to December 31, 2000. He is a director of Fiduciary Trust Company International, AEA Investors, Inc., Alcon, Inc., Mettler-Toledo, Inc. and IAG Research.

PROPOSAL 2

RATIFICATION OF THE APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

The Audit Committee of the Board of Directors has appointed KPMG LLP ("KPMG") as our independent registered public accountants for the 2006 fiscal year, subject to ratification by the shareholders at the 2006 annual meeting. A resolution for ratification will be presented at the annual meeting.

Representatives of KPMG are expected to be present at the annual meeting and will have an opportunity to make a statement and respond to appropriate questions.

The Board of Directors recommends that shareholders vote FOR Proposal 2.

Audit and Non-Audit Fees

The following table presents fees for professional audit services rendered by KPMG for the audit of Foot Locker's annual financial statements for 2005 and 2004, as well as fees billed for other services provided by KPMG during these two fiscal years.

Category	2005	2004
Audit Fees (1)	$3,175,000	$3,227,000
Audit-Related Fees (2)	158,000	166,000
Tax Fees (3)	32,000	52,000
All Other Fees	0	0
Total	$3,365,000	$3,445,000

(1) Audit fees consisted of professional services rendered in conjunction with the audit of our annual financial statements, reviews of financial statements included in our Form 10-Qs, reviews of registration statements and issuances of consents, as well as work generally only the independent auditor can reasonably be expected to provide, such as statutory audits.

(2) Audit-related fees consisted principally of audits of financial statements of certain employee benefit plans. For 2004, audit-related fees also included professional services in connection with an acquisition.

(3) Tax fees consisted principally of assistance with matters related to tax compliance.

In connection with the audit of our financial statements for 2005, we entered into an engagement letter with KPMG that sets forth the terms by which KPMG will perform the audit services. This agreement is subject to alternative dispute resolution procedures, an exclusion for punitive damages, and various other provisions.

Audit Committee Pre-Approval Policies and Procedures

The Audit Committee has a policy that all audit and non-audit services to be provided by the independent accountants to the Company, including its subsidiaries and affiliates, are to be approved in advance by the Audit Committee, irrespective of the estimated cost for providing such services. Between meetings of the Committee, the Audit Committee has delegated this authority to the Chair of the Committee. Management of the Company reviews with the Audit Committee at regularly scheduled meetings the total amount and nature of the audit and non-audit services provided by the independent accountants to the Company, including its subsidiaries and affiliates, since the Committee's last meeting.

None of the services pre-approved by the Audit Committee or the Chair of the Committee during 2005 utilized the *de minimis* exception to pre-approval contained in the applicable rules of the Securities and Exchange Commission.

Audit Committee Report

In accordance with its charter adopted by the Board of Directors, the Audit Committee assists the Board in fulfilling its oversight responsibilities in the areas of the Company's accounting policies and practices, and financial reporting. The Committee has responsibility for appointing the independent accountants and internal auditors.

The Audit Committee consists of five independent directors, as independence is defined under the rules of The New York Stock Exchange. All of the Committee members meet the expertise requirements under the rules of The New York Stock Exchange.

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. At meetings during 2005, the Committee discussed with management, KPMG LLP, the Company's independent registered public accountant, and the Company's internal auditors the assessment of the Company's internal control over financial reporting. The Committee also discussed with KPMG its attestation report and opinion on the Company's internal control over financial reporting contained in the Company's 2005 Annual Report on Form 10-K.

The Audit Committee reviewed and discussed with management and KPMG the audited financial statements for the 2005 fiscal year, which ended January 28, 2006. The Committee also discussed with KPMG the matters required to be discussed by Statement on Auditing Standards No. 61, as amended, "Communication with Audit Committees" and, with and without management present, discussed and reviewed the results of KPMG's examination of the financial statements and the overall quality of the Company's financial reporting.

The Audit Committee obtained from KPMG the written disclosures required by Independence Standards Board Standard No. 1 "Independence Discussions with Audit Committees" and discussed with KPMG any relationships that may affect its objectivity. The Audit Committee also considered whether the non-audit services provided by KPMG to the Company are compatible with maintaining KPMG's independence. The Committee has satisfied itself that KPMG is independent.

Based on the review and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in Foot Locker's Annual Report on Form 10-K for the 2005 fiscal year.

Purdy Crawford, *Chair*
Nicholas DiPaolo
Jarobin Gilbert Jr.
David Y. Schwartz
Dona D. Young

PROPOSAL 3

REAPPROVAL OF THE PERFORMANCE GOALS OF THE LONG-TERM INCENTIVE COMPENSATION PLAN

Under Section 162(m) of the Internal Revenue Code, the Company cannot deduct certain compensation in excess of $1 million paid to the named executive officers of the Company (each, a "Covered Employee"). Certain compensation, including compensation paid based on the achievement of pre-established performance goals, is excluded from this deduction limit if the material terms under which the compensation is to be paid, including the performance goals to be used, are approved by shareholders. Shareholders approved the Long-Term Plan, amended and restated as of January 28, 1996, at the 1996 annual meeting, which satisfied these requirements. Shareholders reapproved the performance goals for this plan at the 2001 annual meeting. Section 162(m) requires that shareholders reapprove the performance goals under the plan every five years.

Material Features of the Long-Term Plan

The following is a summary of the principal features of the Long-Term Plan and is qualified in its entirety by the complete text of the Long-Term Plan. Capitalized terms used but not defined in this summary have the meanings contained in the Long-Term Plan.

Section 409A of the Internal Revenue Code, which was enacted as part of the American Jobs Creation Act of 2004, deals with specific tax rules for nonqualified deferred compensation plans. The Company intends to amend certain provisions of the Long-Term Plan prior to the expiration of the transition period on December 31, 2006 in order to bring the plan into documentary compliance with this section of the Internal Revenue Code and related regulations; however, these amendments will in no way change the performance goals under the plan approved by shareholders.

Purpose of the Plan. The purposes of the Long-Term Plan are to reinforce corporate, organizational, and business development goals; to promote the achievement of year-to-year financial and other business objectives; to reward the performance of individual officers and other employees in fulfilling their personal responsibilities for year-to-year achievements; and to serve as a qualified performance-based compensation program under Section 162(m) of the Internal Revenue Code with regard to Covered Employees.

Administration. Currently, the Long-Term Plan is administered by the Compensation and Management Resources Committee, each member of which is an "outside director" under Section 162(m) of the Internal Revenue Code. The Long-Term Plan also provides that the plan may be administered by a sub-committee of the Compensation and Management Resources Committee. The Committee has the authority to grant awards, determine performance criteria, certify attainment of performance goals, construe and interpret the Long-Term Plan and make all other determinations deemed necessary or advisable for the administration of the Long-Term Plan.

Participation. Participation in the Long-Term Plan is limited to those officers and other key employees of the Company, its subsidiaries and divisions, as selected by the Committee. In determining the persons to whom awards shall be granted, the Committee takes into account such factors as the Committee deems appropriate to accomplish the purposes of the Long-Term Plan. Currently, 23 executives participate in this plan.

Performance Periods and Individual Target Awards. Long-Term Plan awards relate to a period of three consecutive plan years or such other period as determined by the Committee, beginning with the Plan Year in which the award is made (the "Performance Period). The individual target award for each participant is expressed as a percentage of Annual Base Salary.

Payment. In general, payment for such awards shall be made only if and to the extent performance goals for the Performance Period are attained and only if the participant remains employed by the Company throughout the Performance Period. Payment to a participant for each Performance Period will be made in cash or shares of Common Stock. If payment is made in shares of stock, the number of shares of Common Stock is determined by dividing the achieved percentage of a participant's Annual Base Salary by the Fair Market Value of the Common Stock on the date of payment. "Fair Market

Value" of the Common Stock on the date of payment, as defined in the Long-Term Plan, is the average of the daily closing prices of a share of the Company's Common Stock in the 60-day period immediately preceding the payment date.

Payment for a Performance Period to a Covered Employee cannot be in an amount that exceeds the lesser of (i) 300% of that employee's Annual Base Salary or (ii) $5,000,000. Awards of Common Stock made pursuant to the Long-Term Plan are Other Stock-Based Awards, and are issued under, and subject to, the provisions of the Company's Stock Option and Award Plans.

Amendment or Termination of Plan. The Committee may amend, suspend, or terminate the Long-Term Plan in whole or in part; provided, however, that no amendment that requires shareholder approval in order for the plan to continue to comply with Section 162(m) of the Internal Revenue Code will be effective unless it is approved by the required vote of the shareholders of the Company. In addition, no amendment may adversely affect the rights of any participant without the participant's consent under any Long-Term Plan awards previously granted.

Benefits Not Determinable. Any payout under the Long-Term Plan is calculated based upon Foot Locker's performance in the applicable Performance Period and is measured against the performance criteria set at the beginning of the applicable Performance Period by the Compensation and Management Resources Committee. Since performance goal criteria may vary from year to year, benefits under the Long-Term Plan are not determinable. The Long-Term Plan is designed to provide payments only if the performance goals established by the Committee have been met and the attainment of such performance goals has been certified by the Committee. The Summary Compensation Table on Page 16 states the payouts under the Long-Term Plan to the named executive officers for the 2001-2003, 2002-2004, and 2003-2005 Performance Periods.

Reapproval of Performance Goals

The Long-Term Plan provides that the Compensation and Management Resources Committee generally has the authority to determine the performance goals that will be in effect for a Performance Period. The Committee also has the authority to the extent permitted by Section 162(m) of the Internal Revenue Code (if applicable) to incorporate provisions in the performance goals allowing for adjustments in recognition of unusual or non-recurring events affecting the Company or our financial statements or in response to changes in applicable laws, regulations or accounting principles.

The performance goals for the Covered Employees will be determined by the Compensation and Management Resources Committee based on one or more of the following criteria:

- the attainment of certain target levels of, or percentage increase in, Consolidated Net Income, or
- the attainment of certain target levels of, or a specified increase in, return on invested capital.

We are seeking shareholder approval of these performance goals originally approved by shareholders in 1996 and reapproved by shareholders in 2001.

The Board of Directors recommends a vote FOR Proposal 3.

DEADLINES AND PROCEDURES FOR NOMINATIONS AND SHAREHOLDER PROPOSALS

Deadlines

Shareholder proposals intended to be presented pursuant to Rule 14a-8 under the Exchange Act at the 2007 annual meeting must be received by the Secretary of the Company no later than December 11, 2006 in order to be considered for inclusion in the 2007 proxy statement.

The Company's By-laws require that shareholders must follow certain procedures, which are described below, to nominate a person for election to the Board of Directors or to introduce an item of business at an annual meeting. We must receive notice of a shareholder's intention to introduce a nomination or proposed item of business for an annual meeting not less than 90 days nor more than 120 days before the first anniversary of the prior year's annual meeting. Assuming that our 2007 annual meeting is held on schedule, we must receive this notice no earlier than January 24, 2007 and no later than February 23, 2007. However, if we hold the annual meeting on a date that is not within 30 days before or after such anniversary date, we must receive the notice no later than ten days after the earlier of the date we first provide notice of the meeting to shareholders or announce it publicly.

Procedures

Foot Locker's By-laws provide that shareholders who wish to submit a nomination for director must deliver a notice to the Secretary of the Company at 112 West 34th Street, New York, New York 10120 not less than 90 days nor more than 120 days before the first anniversary of the prior year's annual meeting. These dates are published each year in the Company's proxy statement. The notice must contain the following information regarding the proposed nominee:

- his or her name, age, business and residence address,
- his or her principal occupation or employment,
- the number of shares of the Company's Common Stock he or she beneficially owns,
- any other information that is required to be disclosed under the Exchange Act and rules and regulations of the Securities and Exchange Commission and The New York Stock Exchange,
- the executed consent of such person to serve if elected, and
- an undertaking by the individual to furnish us with any information we may request in order to determine his or her eligibility to serve as a director.

In addition, the notice must contain the name and address of the shareholder who is making the nomination and the number of shares of the Company's Common Stock that he or she beneficially owns.

Notice of a proposed item of business must include a description of and the reasons for bringing the proposed business to the meeting, any material interest of the shareholder in the business and certain other information about the shareholder.

By Order of the Board of Directors
GARY M. BAHLER
Secretary

April 10, 2006

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

YOUR VOTE IS IMPORTANT

PLEASE VOTE YOUR PROXY

FOOT LOCKER, INC.

Printed on recycled paper