SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

# F O R M 10-Q

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

For the quarterly period ended October 26, 1996

Commission file no. 1-10299

WOOLWORTH CORPORATION
(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.) |

| | |
|---|---|
| 233 Broadway, New York, New York | 10279-0003 |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number: (212) 553-2000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES [X] NO [ ]

Number of shares of Common Stock outstanding at November 23, 1996: 133,985,633

WOOLWORTH CORPORATION

INDEX

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

WOOLWORTH CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS
($ in millions)

| | Oct. 26, 1996 (Unaudited) | Oct. 28, 1995 (Unaudited) | Jan. 27, 1996 |
|---|---|---|---|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | $ 17 | $ 65 | $ 13 |
| Merchandise inventories | 1,681 | 1,917 | 1,364 |
| Other current assets | 263 | 303 | 241 |
| | 1,961 | 2,285 | 1,618 |
| PROPERTY AND EQUIPMENT, NET | 1,109 | 1,482 | 1,225 |
| DEFERRED CHARGES AND OTHER ASSETS | 641 | 634 | 663 |
| | $ 3,711 | $ 4,401 | $ 3,506 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| CURRENT LIABILITIES | | | |
| Short-term debt | $ 115 | $ 651 | $ 69 |
| Accounts payable | 445 | 487 | 321 |
| Accrued liabilities | 475 | 403 | 426 |
| Current portion of long-term debt and obligations under capital leases | 17 | 26 | 25 |
| | 1,052 | 1,567 | 841 |
| LONG-TERM DEBT AND OBLIGATIONS UNDER CAPITAL LEASES | 596 | 653 | 619 |
| DEFERRED TAXES AND OTHER LIABILITIES | 780 | 813 | 817 |
| SHAREHOLDERS' EQUITY | | | |
| Preferred stock | - | - | - |
| Common stock and paid-in capital | 296 | 290 | 290 |
| Retained earnings | 960 | 998 | 891 |
| Foreign currency translation adjustment | 63 | 90 | 83 |
| Minimum pension liability adjustment | (36) | (10) | (35) |
| Total shareholders' equity | 1,283 | 1,368 | 1,229 |
| CONTINGENCIES (Legal Proceedings) | | | |
| | $ 3,711 | $ 4,401 | $ 3,506 |

See accompanying Notes to Condensed Consolidated Financial Statements.

WOOLWORTH CORPORATION

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

| | Thirteen weeks ended | | Thirty-nine weeks ended | |
|---|---|---|---|---|
| | Oct. 26, 1996 | Oct. 28, 1995 | Oct. 26, 1996 | Oct. 28, 1995 |
| SALES | $ 2,048 | $ 2,071 | $ 5,724 | $ 5,787 |
| COSTS AND EXPENSES | | | | |
| Costs of sales | 1,385 | 1,419 | 3,953 | 4,058 |
| Selling, general and administrative expenses | 499 | 508 | 1,482 | 1,586 |
| Depreciation and amortization | 51 | 59 | 151 | 177 |
| Interest expense | 18 | 30 | 57 | 95 |
| Other income | (20) | (2) | (34) | (34) |
| | 1,933 | 2,014 | 5,609 | 5,882 |
| INCOME (LOSS) BEFORE INCOME TAXES | 115 | 57 | 115 | (95) |
| Income tax expense (benefit) | 46 | 23 | 46 | (38) |
| NET INCOME (LOSS) | $ 69 | $ 34 | $ 69 | $ (57) |
| Net income (loss) per share | $ 0.52 | $ 0.26 | $ 0.52 | $ (0.43) |
| Number of shares used to calculate earnings per share | 133.6 | 132.8 | 133.3 | 132.8 |

See accompanying Notes to Condensed Consolidated Financial Statements.

WOOLWORTH CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
(Unaudited)
($ in millions)

| | Thirty-nine weeks ended | |
|---|---|---|
| | Oct. 26, 1996 | Oct. 28, 1995 |
| RETAINED EARNINGS AT BEGINNING OF YEAR | $ 891 | $ 1,055 |
| Net income (loss) | 69 | (57) |
| Cash dividends declared: | | |
| Preferred Stock - $1.10 and $1.65 per share in 1996 and 1995, respectively | - | - |
| RETAINED EARNINGS AT END OF PERIOD | $ 960 | $ 998 |

See accompanying Notes to Condensed Consolidated Financial Statements.

WOOLWORTH CORPORATION

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

| | Thirty-nine weeks ended | |
|---|---|---|
| | Oct. 26, 1996 | Oct. 28, 1995 |
| FROM OPERATING ACTIVITIES | | |
| Net income (loss) | $ 69 | $ (57) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 151 | 177 |
| Gain on sales of real estate | (31) | (33) |
| Deferred income taxes | (6) | (37) |
| Change in assets and liabilities, net of acquisitions: | | |
| Increase in merchandise inventories | (329) | (257) |
| Increase in accounts payable | 124 | 119 |
| Other, net | 31 | 10 |
| Net cash provided by (used in) operating activities | 9 | (78) |
| FROM INVESTING ACTIVITIES | | |
| Capital expenditures | (87) | (110) |
| Proceeds from sale of assets | 25 | 33 |
| Proceeds from sale of real estate | 22 | 88 |
| Purchase of investments | -- | (74) |
| Net cash used in investing activities | (40) | (63) |
| FROM FINANCING ACTIVITIES | | |
| Increase (decrease) in short-term debt | 46 | (203) |
| Increase in long-term debt | -- | 352 |
| Reduction in long-term debt and capital lease obligations | (13) | (13) |
| Issuance of common stock | 6 | 8 |
| Redemption of preferred stock | (1) | -- |
| Dividends paid | -- | (20) |
| Net cash provided by financing activities | 38 | 124 |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | (3) | 10 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 4 | (7) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 13 | 72 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | $ 17 | $ 65 |
| Cash Paid During the Period: | | |
| Interest | $ 35 | $ 75 |
| Income Taxes | $ 14 | $ 11 |

See accompanying Notes to Condensed Consolidated Financial Statements.

WOOLWORTH CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Notes to Consolidated Financial Statements contained in the 1995 Annual Report to Shareholders of Woolworth Corporation (the "Registrant"), portions of which Annual Report are incorporated by reference in the Registrant's Annual Report on Form 10-K for the year ended January 27, 1996, as filed with the Securities and Exchange Commission (the "SEC"). Certain items included in these statements are based on management's estimates. In the opinion of management, all material adjustments, which are of a normal recurring nature, necessary for a fair presentation of the results for the interim period have been included. The results for the thirteen and thirty-nine weeks ended October 26, 1996 are not necessarily indicative of the results expected for the year.

Merchandise Inventories

Domestic merchandise inventories are stated at the lower of cost or market determined using the last-in, first-out method. At October 26, 1996, October 28, 1995 and January 27, 1996 domestic merchandise inventories are stated at $102 million less than the amounts that would have been determined using the first-in, first-out method.

Reclassifications

Certain balances in prior periods have been reclassified to conform with the presentation adopted in the current period.

Legal Proceedings

Between March 30, 1994 and April 18, 1994, the Registrant and certain of its present and former directors and officers were named as defendants in lawsuits brought by certain shareholders claiming to represent classes of shareholders that purchased shares of the Registrant's Common Stock during different periods between January 1992 and March 1994.

These class action complaints purport to present claims under the federal securities and other laws and seek unspecified damages based on alleged misleading disclosures during the class periods.

On April 29, 1994, United States Senior District Judge Richard Owen entered an order consolidating 25 actions, purportedly brought as class actions, commenced against the Registrant and certain officers and directors of the Registrant in the United States District Court for the Southern District of New York, under the caption In re Woolworth Corporation Securities Class Action Litigation. Plaintiffs served an Amended and Consolidated Class Action Complaint, to which the defendants responded. On February 17, 1995, Judge Owen entered an order for certification of the action as a class action on behalf of all persons who purchased the Registrant's Common Stock or options on the Registrant's Common Stock from May 12, 1993 to March 29, 1994 inclusive, pursuant to a stipulation among the parties. The action is scheduled for trial on May 7, 1997.

Five separate state-court derivative actions filed in April 1994 were consolidated under the caption In re Woolworth Corporation Derivative Litigation in the Supreme Court of the State of New York, County of New York.

Plaintiffs served a Consolidated Complaint on behalf of the plaintiffs in these five actions together with the plaintiff in the former federal derivative action Sternberg v. Woolworth Corp., which has been dismissed. Defendants moved to dismiss the Consolidated Complaint, and on April 27, 1995, the court granted defendants' motion, with leave to the plaintiffs to replead. On June 7, 1995, plaintiffs served a Consolidated Amended Derivative Complaint. On June 27, 1995, defendants moved to dismiss the Consolidated Amended Derivative Complaint with prejudice. On April 10, 1996, the court granted defendants' motion with prejudice. Plaintiffs have filed a notice of appeal from the dismissal to the Appellate Division, First Department.

There is one federal derivative action pending in the United States District Court for the Southern District of New York under the caption Rosenbaum v. Sells et al. There have been no material developments in this action.

These actions are all at a preliminary stage of proceedings. Accordingly, the outcomes cannot be predicted with any degree of certainty. As a result, the Registrant cannot determine if the results of the litigation will have a material adverse effect on the Registrant's results of operations, liquidity or financial position.

During 1994, the staff of the SEC initiated an inquiry related to the matters that were reviewed by the Special Committee of the Board of Directors as well as in connection with trading in the Registrant's securities by certain directors and officers of the Registrant. The SEC staff has advised that its inquiry should not be construed as an indication by the SEC or its staff that any violations of law have occurred. There have been no material developments in the inquiry to date.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Total sales for the 1996 third quarter decreased 1.1 percent to $2,048 million compared to $2,071 million for the 1995 third quarter. Comparable-store sales increased by 1.5 percent. Excluding the effect of foreign currency fluctuations and sales from disposed operations, sales decreased by 0.8 percent. Total Specialty segment sales for the 1996 third quarter increased 4.9 percent while comparable-store sales increased 5.0 percent, as compared to the 1995 third quarter. Total General Merchandise segment 1996 third quarter sales decreased 8.0 percent while comparable-store sales decreased 4.4 percent, as compared to the same period of 1995. The decrease in General Merchandise sales primarily relates to lower sales in Germany and the United States.

Year-to-date 1996 sales decreased 1.1 percent to $5,724 million compared to $5,787 million for 1995. Excluding the effect of foreign currency fluctuations and sales from disposed operations, sales decreased 1.1 percent, and comparable-store sales increased 0.8 percent during the year-to-date period.

Fiscal 1996 third quarter operating profit (before corporate expense, interest, and income taxes) of $143 million improved by $44 million over the comparable prior year operating profit of $99 million. This improvement stems directly from the continuing implementation of the Registrant's strategic plan including inventory level reductions, expense reductions and the divestiture of non-strategic assets. For the 1996 third quarter, selling, general and administrative expenses declined by $9 million compared to the corresponding 1995 period. Year-to-date, selling, general and administrative expenses were $104 million less than the corresponding 1995 period. These decreases reflect the ongoing success of the Registrant's cost reduction initiatives. The 1996 operating profit includes a charge for early retirement and severance costs related to ongoing workforce reduction programs in the German general merchandise operations of $21 million in the third quarter and $31 million year-to-date. Included in the 1995 year-to-date operating profit is a $38 million charge related to the inventory improvement program implemented to lower inventory levels and clear stores of aged and discontinued merchandise for new product assortments.

The Registrant reported net income of $69 million, or $0.52 per share, for the 1996 third quarter, compared to net income of $34 million, or $0.26 per share, for the corresponding prior year period. The Registrant reported net income of $69 million for the 1996 year-to-date period, or $0.52 per share. This represents an improvement of $126 million, or $0.95 per share compared to the loss of $57 million or $0.43 per share for the corresponding 1995 period.

As of October 26, 1996, the Registrant operated a total of 7,854 stores consisting of 6,837 Specialty stores and 1,017 General Merchandise stores. This compares to 7,955 stores consisting of 6,920 Specialty stores and 1,035 General Merchandise stores operated as of October 28, 1995.

The net gain on the divestiture of non-strategic real estate in the third quarter totaled $18 million. This primarily related to the sale of real estate located in Germany.

In line with the Registrant's strategic plan to dispose of underperforming businesses, in the 1996 third quarter, the Registrant completed the sale of its 42-store Silk & Satin chain in Canada as well as its 41-store Rubin chain in Germany. The charge for disposed operations for the 1996 third quarter totaled $5 million and includes disposition related costs for these businesses, as well as a provision for the closure of the Sandalwood distribution center in Canada. The charge for disposed operations includes the loss incurred to dispose of those operations, as well as the operational losses incurred through disposal date. For the 1996 year-to-date period, in addition to the third quarter disposition activity, the Registrant disposed of various operations including the Rx Place Drug Mart, Accessory Lady, and Lady Plus chains. The total charge included in the 1996 year-to-date operations related to those dispositions was $36 million. The charge for disposed operations for the prior year periods presented includes the operating results of businesses disposed of in the current year.

SALES

The following table summarizes sales by segment and by geographic area:

| (in millions) | Thirteen weeks ended Oct. 26, 1996 | Thirteen weeks ended Oct. 28, 1995 | Thirty-nine weeks ended Oct. 26, 1996 | Thirty-nine weeks ended Oct. 28, 1995 |
|---|---|---|---|---|
| By segment: | | | | |
| Specialty: | | | | |
| Athletic Group | $ 954 | $ 896 | $2,634 | $2,483 |
| Specialty Footwear | 190 | 189 | 517 | 529 |
| Other Specialty | 83 | 93 | 245 | 274 |
| Northern Group | 110 | 96 | 255 | 215 |
| Specialty total | 1,337 | 1,274 | 3,651 | 3,501 |
| General Merchandise: | | | | |
| Germany | 399 | 427 | 1,138 | 1,199 |
| United States | 253 | 278 | 739 | 816 |
| Other | 52 | 60 | 152 | 171 |
| General Merchandise total | 704 | 765 | 2,029 | 2,186 |
| Disposed operations | 7 | 32 | 44 | 100 |
| | $2,048 | $2,071 | $5,724 | $5,787 |

| (in millions) | Thirteen weeks ended Oct. 26, 1996 | Thirteen weeks ended Oct. 28, 1995 | Thirty-nine weeks ended Oct. 26, 1996 | Thirty-nine weeks ended Oct. 28, 1995 |
|---|---|---|---|---|
| By geographic area: | | | | |
| Domestic | $1,289 | $1,263 | $3,605 | $3,560 |
| International | 752 | 776 | 2,075 | 2,127 |
| Disposed operations | 7 | 32 | 44 | 100 |
| | $2,048 | $2,071 | $5,724 | $5,787 |

Specialty Segment

The Athletic and Northern Groups turned in strong third quarter performances. Athletic Group sales increased for the third quarter and the year-to-date periods, by 6.5 percent and 6.1 percent, respectively, over the corresponding prior year periods. Northern Group sales increased by 14.6 percent and 18.6 percent, for the third quarter and year-to-date periods, respectively.

Specialty Footwear third quarter sales increased by 0.5 percent, 0.7 percent on a comparable-store basis, while year-to-date sales decreased by 2.3 percent, 1.8 percent on a comparable-store basis, as compared to the corresponding prior year periods. The year-to-date decline is principally attributable to the Kinney format.

Other Specialty third quarter sales, adjusted for dispositions, decreased by 10.8 percent from $93 million to $83 million, 4.4 percent on a comparable-store basis, as compared to the prior year period. For the year-to-date period, sales declined 10.6 percent to $245 million, 2.4 percent on a comparable-store basis, as compared to the prior year period. This decline in sales was mainly due to the closure of 98 underperforming stores related to ongoing formats.

General Merchandise

German general merchandise 1996 third quarter sales decreased by 6.6 percent, while comparable-store sales decreased by 3.4 percent, as compared to the prior year period. Year-to-date period sales have decreased 5.1 percent while comparable-store sales decreased 2.8 percent, as compared to the prior year period. Excluding the impact of foreign currency fluctuations, sales decreased by 0.4 percent and 0.8 percent for the quarter and year-to-date periods, respectively. Sales continue to be negatively impacted by a struggling economy and high unemployment.

United States general merchandise sales decreased for both the third quarter and year-to-date periods by 9.0 percent and 9.4 percent, respectively. These declines are mainly due to the continued competitive pressures in general merchandise coupled with the closure of underperforming stores under the Registrant's store closing program.

A decline in sales was also experienced by both the Registrant's Mexican and Canadian operations in the third quarter as well as for the year-to-date period. Sales in this group fell by $8 million, 13.3 percent for the third quarter, while comparable-store sales decreased by 0.6 percent. Year-to-date sales decreased $19 million or 11.1 percent, while comparable-store sales decreased by 4.0 percent. Excluding the negative impact of foreign currency fluctuations, sales declined 9.2 percent for the third quarter and 7.6 percent year-to-date. Cooler weather conditions in Canada for the first two quarters of fiscal 1996 contributed to the year-to-date declines.

OPERATING RESULTS

Operating profit (before corporate expense, interest, and income taxes) is as follows:

| (in millions) | Thirteen weeks ended Oct. 26, 1996 | Thirteen weeks ended Oct. 28, 1995 | Thirty-nine weeks ended Oct. 26, 1996 | Thirty-nine weeks ended Oct. 28, 1995 |
|---|---|---|---|---|
| By segment: | | | | |
| Specialty | $ 154 | $ 106 | $ 288 | $ 123 |
| General Merchandise | (24) | (2) | (71) | (64) |
| Net gain on sales of real estate | 18 | 1 | 31 | 33 |
| Disposed operations | (5) | (6) | (36) | (42) |
| | $ 143 | $ 99 | $ 212 | $ 50 |
| By geographic area: | | | | |
| Domestic | $ 120 | $ 91 | $ 233 | $ 106 |
| International | 10 | 13 | (16) | (47) |
| Net gain on sales of real estate | 18 | 1 | 31 | 33 |
| Disposed operations | (5) | (6) | (36) | (42) |
| | $ 143 | $ 99 | $ 212 | $ 50 |

Specialty Segment

Specialty operating profit improved by $48 million and $165 million over the prior year third quarter and year-to-date periods, respectively. This was primarily due to expense reductions combined with increased sales achieved by the Athletic Group. Specialty operating profit for the 1995 year-to-date period included a $16 million charge related to the Registrant's inventory improvement program.

General Merchandise

Total General Merchandise third quarter operating results decreased by $22 million compared to the prior year period, mainly attributable to a $21 million charge for German early retirement and severance programs. Excluding this charge, operating results decreased by $1 million. Year-to-date operating results, excluding the charge for early retirement of $31 million, improved by $24 million. German operating results, excluding this early retirement charge, increased by $12 million in the 1996 third quarter and $27 million for the year-to-date period. United States and Other general merchandise operating results decreased $13 million for the 1996 third quarter and $3 million for the year-to-date period. General Merchandise operating results for 1995 included a $22 million charge related to the Registrant's inventory improvement program.

SEASONALITY

The Registrant's businesses are highly seasonal in nature. Historically, the greatest proportion of sales and net income is generated in the fourth quarter and the lowest proportion of sales and net income is generated in the first quarter, reflecting seasonal buying patterns.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was $9 million for the thirty-nine weeks ended October 26, 1996, compared to $78 million used in the comparable prior-year period. The increase in cash provided during 1996 compared to 1995 primarily reflects improved operating results along with the Registrant's inventory improvement program.

Net cash used in investing activities amounted to $40 million for the thirty-nine weeks ended October 26, 1996, compared to $63 million during the corresponding period in 1995. The reduced utilization of cash in 1996 reflects a reduction in capital expenditures and a reduction in proceeds from the sale of real estate and other assets. In addition, no other investments were made during the thirty-nine weeks ended October 26, 1996. Capital expenditures of approximately $172 million are planned for the full fiscal year 1996.

Inventories decreased $236 million to $1,681 million as of October 26, 1996, from $1,917 million as of October 28, 1995. The decrease from the third quarter of 1995 reflects the Registrant's successful inventory improvement program and a reduction in inventories due to the divestiture of the Drug Mart and Accessory Lady chains as well as the sale of the Silk & Satin, Lady Plus and Rubin chains. The $317 million increase in inventory levels from January 27, 1996 is a normal seasonal increase prior to peak selling periods, and is financed by short-term debt and accounts payable.

Accounts payable of $445 million at October 26, 1996 decreased by $42 million as compared to October 28, 1995 and increased by $124 million as compared to January 27, 1996. These changes are directly associated with inventory levels.

Short-term debt decreased $536 million compared to October 28, 1995 levels and increased by $46 million from the year-end level to $115 million. The decrease from October 28, 1995 primarily reflects lower inventory levels. Aggregate debt has declined $602 million from the prior year. The Registrant further reduced debt levels by selling non-strategic assets and continuing cost reduction programs.

The Registrant has a $1.0 billion three-year revolving credit facility available through May 1998.

Interest expense for the third quarter of 1996, decreased $12 million or 40.0 percent over the comparable 1995 period. Interest expense for the year-to-date period decreased $38 million, or 40.0 percent over the comparable 1995 period. The decrease from the third quarter is attributable to the reduction in total debt levels of $602 million as compared to the prior year period.

Shareholders' equity at October 26, 1996 decreased $85 million from the level at October 28, 1995. The decrease includes a non-cash pre-tax charge of $241 million ($165 million after-tax) for the adoption of Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" in the fourth quarter of 1995.

In the third quarter of 1996, the Registrant announced that its Board of Directors called for the redemption of all of the outstanding $2.20 Series A Convertible Preferred Stock ("Preferred Stock"). Approximately 83 percent of the Preferred Stock has been converted into shares of the Registrant's Common Stock.

On December 2, 1996, the Registrant announced that a definitive agreement was signed whereby the Registrant will acquire Eastbay, Inc., a direct marketer of athletic footwear, apparel, equipment and licensed and private label products. The total purchase price will be approximately $146 million and it is expected that the acquisition will be completed in early 1997. Current and projected Registrant cash flows are expected to be sufficient to fund the transaction.

# PART II - OTHER INFORMATION

## Item 1. Legal Proceedings

This information is incorporated by reference to the Legal Proceedings section of the Notes to Condensed Consolidated Financial Statements on pages 7 through 8 of Part I, Item 1.

## Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

An index of the exhibits that are required by this item, and which are furnished in accordance with Item 601 of Regulation S-K, appears on pages 15 through 17. The exhibits which are in this report immediately follow the index.

(b) Reports on Form 8-K

On August 14, 1996 the Registrant announced that its Board of Directors called for the redemption of all of the outstanding shares of the Registrant's $2.20 Series A Convertible Preferred Stock ("Preferred Stock") on October 23, 1996 at the redemption price of $45 per share. Shares of Preferred Stock may be converted into shares of the Registrant's Common Stock at the rate of 5.68 shares of Common Stock for each share of Preferred Stock. Conversion rights expired at 5:00 p.m. New York City time on October 18, 1996.

SIGNATURE

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

WOOLWORTH CORPORATION
(Registrant)

Date: December 9, 1996

/s/ Andrew P. Hines
ANDREW P. HINES
Senior Vice President
and Chief Financial Officer

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

| Exhibit No. in Item 601 of Regulation S-K | Description |
|---|---|
| 1 | * |
| 2 | * |
| 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(a) to the Registration Statement on Form S-4 filed by the Registrant with the Securities and Exchange Commission ("SEC") on May 9, 1989 (Registration No. 33-28469) (the "S-4 Registration Statement"). |
| 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 (incorporated herein by reference to Exhibit 3(b) 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")) and (b) July 24, 1990 (incorporated herein by reference to Exhibit 4(a) to the Quarterly Report on Form 10-Q for the quarterly period ended July 28, 1990, filed by the Registrant with the SEC on September 7, 1990 (the "Form 10-Q")). |
| 3(ii) | By-laws of the Registrant, as amended (incorporated herein by reference to Exhibit 3(ii) 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 10-K")). |
| 4(a) | 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) Exhibit 3(a) to the S-4 Registration Statement, (b) Exhibit 3(b) to the 8-B Registration Statement and (c) Exhibit 4(a) to the Form 10-Q). |
| 4(b) | Rights Agreement dated as of April 4, 1988, as amended January 11, 1989, between F.W. Woolworth Co. ("FWW") and Morgan Shareholder Services Trust Company (now, First Chicago Trust Company of New York), as Rights Agent (incorporated herein by reference to (a) Exhibit 1 to the Registration Statement on Form 8-A filed by FWW with the SEC on April 12, 1988 (Registration No. 1-238) and (b) the Form 8 Amendment to such Form 8-A filed |

| | |
|---|---|
| | by FWW with the SEC on January 13, 1989). The rights and obligations of FWW under said Rights Agreement were assumed by the Registrant pursuant to an Agreement and Plan of Share Exchange dated as of May 4, 1989, by and between FWW and the Registrant (incorporated herein by reference to Exhibit 2 to the S-4 Registration Statement). |
| 4(c) | 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 with the SEC). |
| 4(d) | Forms of Medium-Term Notes (Fixed Rate and Floating Rate) (incorporated herein by reference to Exhibits 4.4 and 4.5 to the Registration Statement on Form S-3 (Registration No. 33-43334) previously filed with the SEC). |
| 4(e) | Form of 8-1/2% Debentures due 2022 (incorporated herein by reference to Exhibit 4 to Registrant's Form 8-K dated January 16, 1992). |
| 4(f) | Purchase Agreement dated June 1, 1995 and Form of 7% Notes due 2000 (incorporated herein by reference to Exhibits 1 and 4, respectively, to Registrant's Form 8-K dated June 7, 1995). |
| 4(g) | Distribution Agreement dated July 13, 1995 and Forms of Fixed Rate and Floating Rate Notes (incorporated herein by reference to Exhibits 1, 4.1 and 4.2, respectively, to Registrant's Form 8-K dated July 13, 1995). |
| 5 | * |
| 8 | * |
| 9 | * |
| 10 | Agreement with John A. Wozniak dated November 11, 1996. |
| 11 | Computation of Net Income (Loss) Per Common Share. |
| 12 | Computation of Ratio of Earnings to Fixed Charges. |
| 13 | * |
| 15 | Letter re: Unaudited Interim Financial Statements. |
| 16 | * |
| 17 | * |
| 18 | * |
| 19 | * |
| 20 | * |
| 21 | * |
| 22 | * |

| | |
|---|---|
| 23 | * |
| 24 | * |
| 25 | * |
| 26 | * |
| 27 | Financial Data Schedule, which is submitted electronically to the SEC for information only and not filed. |
| 99 | Independent Accountants' Review Report. |

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* Not applicable

Exhibits filed with this Form 10-Q:

| Exhibit No. | |
|---|---|
| 10 | Agreement with John A. Wozniak dated November 11, 1996 |
| 11 | Computation of Net Income (Loss) Per Common Share. |
| 12 | Computation of Ratio of Earnings to Fixed Charges. |
| 15 | Letter re: Unaudited Interim Financial Statements. |
| 27 | Financial Data Schedule. |
| 99 | Independent Accountants' Review Report. |

EXHIBIT 10

November 11, 1996

Mr. John A. Wozniak
6 Cromwell Drive
Chester, New Jersey 07930

Dear John:

This letter sets forth our understanding and agreement with respect to your resignation as Vice President and Controller of Woolworth Corporation ("Woolworth"), effective on the Termination Date, as hereinafter defined, and sets forth the arrangements to which we have agreed.

1. Termination of Employment. Your employment with the Company shall continue until the date specified by the Company in a written notice to you, which date is expected to be 30 days following the date on which your successor commences employment with the Company (the date of termination of your employment being herein referred to as the "Termination Date"). You shall resign as Vice President and Controller of the Company, and from all other positions you hold with the Company or any of its subsidiaries, as of the date the Company delivers to you the notice referred to in the preceding sentence and you shall execute and deliver a letter of resignation in the form annexed hereto as Exhibit A as of such date.

2. Payments. Provided you continue to be employed by the Company on the Termination Date and have satisfactorily performed your responsibilities through such date, including cooperating in the transfer of your responsibilities to your successor, the Company shall make the following payments to you:

a. On the Termination Date, $7,115, being the amount payable to you pursuant to the provisions of the Company's severance policy.

b. On the Termination Date, an additional amount of $39,135.

c. On the Termination Date, in accordance with the Company's normal policies and practices, (i) salary and reimbursement of any business expenses related to the period prior to the Termination Date and (ii) an amount in lieu of any accrued but unused vacation as of the Termination Date.

d. Provided that the Termination Date is earlier than March 8, 1997, on the Termination Date, an amount equal to the difference between the fair market value of one share of the Company's Common Stock on the trading day preceding the Termination Date and $15.375, multiplied by 5,000 and the stock option granted to you on March 8, 1995 shall thereupon be cancelled. For purposes of the preceding sentence, the "fair market value" of a share of the Company's Common Stock shall be the average of the high and the low prices at which such Common Stock traded on the New York Stock Exchange on the relevant trading day.

e. If you have not commenced other full-time employment on the date three months' from the Termination Date, the Company shall, for the one-month period commencing on such date, and in each of the 11 monthly periods thereafter, pay you $15,417, provided, however, that (i) during the period that such payments are being made, you must, in the opinion of an out-placement counselor designated by the Company, be actively engaged in a search for full-time employment and (ii) the Company shall have no obligation to continue such payments, and such payments shall cease, on the date you commence other full-time employment.

f. You shall be eligible to receive a payment under the Company's Annual Incentive Compensation Plan for 1996 and the Long-Term Incentive Compensation Plan for the 1994-96 plan period in accordance with the terms of those plans; provided, however, that if the Date of Termination is earlier than January 26, 1997, such payments, if any, shall be prorated as of the Termination Date. You shall not be entitled to receive any payment under the Annual Incentive Compensation Plan for 1997 or under the Long-Term Incentive Compensation Plan for any other period.

g. All amounts payable to you hereunder shall be subject to appropriate withholding for federal, state, and local income taxes.

3. Stock Option and Stock Purchase Plans. All unexercised stock options granted to you prior to the date hereof, and not exercised or cancelled on or before the Termination Date, pursuant to the provisions of the 1995 Woolworth Stock Option and Award Plan (the "Option Plan"), shall remain exercisable in accordance with the relevant provisions of the Option Plan. Your "effective date of termination" for purposes of the Option Plan shall be the Termination Date and your termination shall, for the purposes of such plan, be treated as your resignation from your position with the Company.

Your right to participate in the 1994 Woolworth Employees Stock Purchase Plan shall be in accordance with the terms of such plan and shall cease as of the Termination Date.

4. Pension Benefits. For purposes of calculating your benefit accrual under the Woolworth Retirement Plan and the Excess Cash Balance Plan for the plan year in which the Termination Date occurs, your W-2 Compensation (as that term is defined in such plans) shall include the amounts payable to you under the provisions of Sections 2(a) and 2(b) hereof.

5. Other Benefits. (a) Your participation in the medical, drug, dental, life insurance, and voluntary accidental death and dismemberment plans for active employees of the Company shall cease on the Termination Date, subject to your right to continue coverage under the provisions of COBRA. In the event that you elect to continue such coverage under the provisions of COBRA, the Company shall make on your behalf any additional premium payments beyond those you would be required to

make if you were a full-time employee of the Company for the period ending on the earlier of the first anniversary of the Termination Date or 30 days following the date on which you commence other full-time employment.

(b) The Company shall provide to you, at its expense, until the earlier of the first anniversary of the Termination Date or such time as you shall have secured other full-time employment, the services of an out-placement consultant.

6. Confidentiality. You will not disclose, at any time, to any person, nonpublic information of any kind concerning the Company or any of its subsidiaries, including, but not limited to, nonpublic information concerning finances, financial plans, accounting methods, strategic plans, operations, personnel, organizational structure, methods of distribution, suppliers, customers, client relationships, marketing strategies, or the like.

If you engage in such wrongful conduct or otherwise violate the provisions of this Section 6, you will forfeit your entitlement to any rights granted by this letter agreement (except as otherwise provided under applicable law) and the Company shall not have any further obligation under this letter agreement. In addition, you agree that the Company shall have such other rights, including but not limited to injunctive relief, as may be provided under applicable law.

7. Release from Claims. In consideration of all of the foregoing, you hereby agree to release and forever discharge the Company and its subsidiaries and affiliates, and their respective officers and directors, from any and all actions, causes of action, claims, demands, and liabilities of whatsoever nature arising out of, or in connection with, your employment with the Company and any of its subsidiaries and affiliates, whether arising before or after the date hereof. The foregoing shall include, but not be limited to, any claim of employment discrimination under the Age Discrimination in Employment Act of 1967, or any other federal or state labor relation law, equal employment opportunity law, or civil rights law, regulation or order. Federal law requires that we advise you to consult with an attorney of your choice (at your own cost). In addition, federal law also provides that you have 21 days from the date of this letter, including any release of the Company and its subsidiaries, from liability as provided in this paragraph. Furthermore, you have the right to change your mind at any time within one week after signing. In addition, you hereby acknowledge that you have been given full opportunity to review this letter, including sufficient opportunity to review this letter, including sufficient opportunity for appropriate review with any advisors selected by you. The foregoing shall not constitute a release of any and all claims you may have against the Company for breach of any of the provisions of this letter agreement.

You understand and agree that the payments and benefits provided for in this agreement shall be in lieu of any and all amounts that would be payable to you, and that no other amounts will be paid to you for any reason whatsoever.

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8. Assignment. Neither this letter agreement, nor any of the rights arising hereunder, may be assigned by you. You agree to execute such additional documents as the Company may require to carry out this letter agreement.

9. Miscellaneous. This letter agreement represents our total understanding and agreement with regard to the subject matter hereof, and supersedes any previous discussions or writings. This letter agreement may not be amended or modified, and no term or provision hereof may be waived or discharged, unless agreed to in writing by you and the Company. The invalidity or unenforceability of any provision of this letter agreement shall not affect the validity or enforceability of any other provision hereof.

The section headings herein are for convenience of reference only and shall not affect or be utilized in the construction or interpretation of this agreement.

This letter agreement may be executed in counterparts, each of which, when so executed, shall be deemed an original and all of which, when taken together, shall constitute one and the same agreement.

The offer of the Company contained in this letter agreement shall terminate and be of no further force and effect at 12:01 A.M. New York City time on the twenty-second day following the delivery of this letter to you, unless you have signed and returned the letter to us, unaltered, before such date and time.

10. Governing Law. This letter agreement shall be governed by, and construed under, the laws of the State of New York applicable to contracts made between residents of such state and to be wholly performed in such state.

If this letter agreement correctly sets forth our agreement, please execute the duplicate copy of this letter agreement enclosed for that purpose, and deliver it to us, at which time this letter agreement shall serve as a binding and enforceable agreement between us.

Very truly yours,
WOOLWORTH CORPORATION

By:/s/ Patricia A. Peck
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Agreed:
/s/ John A. Wozniak
- ----------------------------
John A. Wozniak

Witnessed:
/s/ John F. Gillespie
- ----------------------------

Date: 12/9/96
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EXHIBIT A

__________________, 19__

Board of Directors
Woolworth Corporation
233 Broadway
New York, New York 10279

Gentlemen and Ladies:

I hereby resign my position as Vice President and Controller of Woolworth Corporation, and from any other position as an officer or director that I may hold with Woolworth Corporation or with any subsidiary or affiliate thereof, effective at the close of business on [DATE OF NOTICE].

Yours truly,

John A. Wozniak

EXHIBIT 11

WOOLWORTH CORPORATION

COMPUTATION OF NET INCOME (LOSS) PER COMMON SHARE
(Unaudited)
(in millions, except per share amounts)

| | Thirteen weeks ended | | Thirty-nine weeks ended | |
|---|---|---|---|---|
| | Oct. 26, 1996 | Oct. 28, 1995 | Oct. 26, 1996 | Oct. 28, 1995 |
| FINANCIAL STATEMENT PRESENTATION | | | | |
| Weighted-average number of common shares outstanding | 133.6 | 132.8 | 133.3 | 132.8 |
| Net income (loss) | $ 68.9 | $ 33.8 | $ 69.3 | $ (57.5) |
| Less Preferred Dividends | -- | -- | (0.1) | (0.1) |
| Net income (loss) applicable to common shares | $ 68.9 | $ 33.8 | $ 69.2 | $ (57.6) |
| Net income (loss) per share of common stock | $ 0.52 | $ 0.26 | $ 0.52 | $ (0.43) |
| PRIMARY(1) | | | | |
| Weighted-average number of common shares outstanding and common share equivalents | 134.6 | 132.8 | 134.0 | 132.8 |
| Net income (loss) applicable to common shares | $ 68.9 | $ 33.8 | $ 69.2 | $ (57.6) |
| Primary net income (loss) per share of common stock | $ 0.51 | $ 0.26 | $ 0.52 | $ (0.43) |
| FULLY DILUTED (1), (2) | | | | |
| Weighted-average number of common shares outstanding and fully diluted common share equivalents | 135.1 | 132.9 | 134.7 | 132.9 |
| Assumed conversion of preferred stock | -- | 0.6 | -- | 0.6 |
| Adjusted weighted-average number of common shares and common share equivalents | 135.1 | 133.5 | 134.7 | 133.5 |
| Net income (loss) applicable to common shares | $ 68.9 | $ 33.8 | $ 69.3 | $ (57.5) |
| Fully diluted net income (loss) per share of common stock | $ 0.51 | $ 0.26 | $ 0.51 | $ (0.43) |

(1) This calculation is submitted in accordance with Securities Exchange Act of 1934 Release No. 9083 although not required by footnote 2 to paragraph 14 of APB Opinion No. 15 because it results in dilution of less than 3%.

(2) This calculation is submitted for the 1995 loss in accordance with Regulation S-K, Item 601(b)(11) although it is contrary to paragraph 40 of APB Opinion No. 15 because it produces an anti-dilutive result.

EXHIBIT 12

WOOLWORTH CORPORATION

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

($ in millions)

| | 39 weeks ended Oct. 26, 1996 | Fiscal Years Ended Jan. 27, 1996 | Jan. 28, 1995 | Jan. 29, 1994 | Jan. 30, 1993 | Jan. 25, 1992 |
|---|---|---|---|---|---|---|
| EARNINGS | | | | | | |
| Net income (loss) | $ 69 | $(164) | $ 47 | $(495) | $ 280 | $ (53) |
| Income tax expense (benefit) | 46 | (69) | 49 | (303) | 157 | (30) |
| Gross interest expense, excluding capitalized interest | 58 | 124 | 110 | 86 | 94 | 99 |
| Portion of rents deemed representative of the interest factor (1/3) | 56 | 224 | 211 | 210 | 199 | 192 |
| | $ 229 | $ 115 | $ 417 | $(502) | $ 730 | $ 208 |
| FIXED CHARGES | | | | | | |
| Gross interest expense | $ 58 | $ 124 | $ 111 | $ 86 | $ 94 | $ 99 |
| Portion of rents deemed representative of the interest factor (1/3) | 56 | 224 | 211 | 210 | 199 | 192 |
| | $ 114 | $ 348 | $ 322 | $ 296 | $ 293 | $ 291 |
| RATIO OF EARNINGS TO FIXED CHARGES | 2.0 | .3 | 1.3 | -- | 2.5 | .7 |

Earnings were not adequate to cover fixed charges by $233 million, $798 million and $83 million for the fiscal years ended January 27, 1996, January 29, 1994 and January 25, 1992, respectively.

EXHIBIT 15

Accountants' Acknowledgment

Woolworth Corporation
New York, New York

Board of Directors:

Re: Registration Statement Numbers 33-43334 and 33-86300 on Form S-3 and Numbers 2-98142 and 33-10783 on Form S-8.

With respect to the subject registration statements, we acknowledge our awareness of the use therein of our report dated November 12, 1996 related to our review of interim financial information.

Pursuant to Rule 436(c) under the Securities Act of 1933, such report is not considered a part of a registration statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of the Act.

/s/ KPMG Peat Marwick LLP
New York, New York
December 9, 1996

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE INTERIM
CONSOLIDATED STATEMENT OF INCOME FOR THE THREE MONTHS ENDED OCTOBER 26, 1996 AND
THE CONSOLIDATED BALANCE SHEET AS OF OCTOBER 26, 1996 AND IS QUALIFIED IN ITS
ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000,000

9-MOS
JAN-25-1997
JAN-28-1996
OCT-26-1996
17
0
0
0
1,681
263
1,109
0
3,711
1,052
0
0
0
0
1,283
3,711
5,724
5,724
3,953
3,953
151
0
57
115
46
69
0
0
0
69
.52
.52

EXHIBIT 99

# Independent Auditors' Review Report

The Board of Directors and Shareholders
Woolworth Corporation:

We have reviewed the condensed consolidated balance sheets of Woolworth Corporation and subsidiaries as of October 26, 1996 and October 28, 1995, and the related condensed consolidated statements of operations, retained earnings, and cash flows for the thirteen week and thirty-nine week periods ended October 26, 1996 and October 28, 1995. These condensed consolidated financial statements are the responsibility of the Woolworth Corporation's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet of Woolworth Corporation and subsidiaries as of January 27, 1996, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated March 12, 1996, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of January 27, 1996, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ KPMG Peat Marwick LLP
New York, New York
November 12, 1996