FOOT LOCKER INC
Form 11-K
June 15, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 11-K

x ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011

or

¨ TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________________ to _________________________

Commission file number: 1-10299

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

Foot Locker Puerto Rico 1165(e) Plan

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

Foot Locker, Inc.

112 West 34th Street

New York, N.Y. 10120

Table of Contents

* Schedules required by Form 5500, which are not applicable, have been omitted.

Report of Independent Registered Public Accounting Firm

Foot Locker Puerto Rico 1165(e) Plan Administrator:

We have audited the accompanying statements of net assets available for benefits of the Foot Locker Puerto Rico 1165(e) Plan (the "Plan") as of December 31, 2011 and 2010, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these 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 audits 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 financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2011 and 2010, and the changes in net assets available for benefits for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental Schedule H, Line 4i - Schedule of Assets (Held at End of Year) as of December 31, 2011 is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan’s management. The supplemental schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ KPMG LLP

New York, New York

June 15, 2012

2

Foot Locker Puerto Rico 1165(e) Plan

Statements of Net Assets Available for Benefits

December 31, 2011 and 2010

	2011	2010
Assets:		
Investments, at fair value (see note 2(c))	$1,869,450	$1,564,565
Loans receivable from participants	150,849	104,301
Receivables:		
Participant contributions	21,103	15,904
Employer contribution	61,764	101,554
	82,867	117,458
Net assets available for benefits at fair value	2,103,166	1,786,324
Adjustment from fair value to contract value for underlying fully benefit-responsive investment contracts	(900)	-
Net assets available for benefits	$2,102,266	$1,786,324

See accompanying notes to financial statements.

3

Foot Locker Puerto Rico 1165(e) Plan

Statements of Changes in Net Assets Available for Benefits

December 31, 2011 and 2010

	2011	2010
Additions to net assets attributed to:		
Investment income:		
Net appreciation of investments	$48,707	$314,684
Dividends	13,749	10,472
Total investment income	62,456	325,156
Interest on participant loans receivable	4,395	2,634
Contributions:		
Participant	326,994	305,128
Employer	61,764	101,554
Total contributions	388,758	406,682
Total additions	455,609	734,472
Deductions from net assets attributed to:		
Benefits paid to participants	115,997	139,434
Administrative fees	23,670	24,176
Total deductions	139,667	163,610
Net increase	315,942	570,862
Net assets available for benefits:		
Beginning of year	1,786,324	1,215,462
End of year	$2,102,266	$1,786,324

See accompanying notes to financial statements.

Foot Locker Puerto Rico 1165(e) Plan

Notes to Financial Statements

December 31, 2011 and 2010

(1) Description of Plan

(a) General

In September 2004, the Foot Locker Puerto Rico 1165(e) Plan (the "Plan") was established with an effective date of January 1, 2004. The Plan is a defined contribution plan covering generally all employees of Foot Locker, Inc. (the "Company") whose primary place of employment is in Puerto Rico. Eligible employees are those who have attained age twenty-one and completed one year of service consisting of at least 1,000 hours. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

(b) Contributions

The Plan provides for automatic revocable enrollment in the Plan at a contribution rate of 3% of pre-tax annual compensation as defined, for participants who meet the eligibility requirements. The initial automatic enrollment percentage automatically increases each year in 1% increments up to a maximum of 5%. Participants may elect to change their contribution rate and salary reduction agreement as often as daily. For 2011 and 2010, pre-tax contributions could be made up to the Puerto Rico Department of Treasury limit of $10,000 and $9,000 respectively. The pre-tax dollar amount contribution limit is scheduled to increase to $12,000 for 2013. Participants may also roll over certain amounts representing distributions from other qualified retirement plans in Puerto Rico prior to becoming eligible to participate in the Plan; however, additional contributions cannot be made until the completion of one year of service consisting of at least 1,000 hours. For any participant who (i) has completed 1,000 hours of service during the Plan year and is actively employed by the Company on the last day of the Plan year or (ii) during the Plan year, has died, has become disabled or retired on or after normal retirement age, the Company contributes 25% of such participant's pre-tax contributions to the Plan up to the first 4% of the participant's compensation (as defined) earned during the Plan year. Matching contributions, at the Company’s option, are made either in shares of the Company's common stock ("Foot Locker Shares") or in cash to be invested in Foot Locker Shares. Effective January 1, 2007, participants that are invested in the Foot Locker Stock Fund can diversify their matching contributions into any of the other investment options available under the Plan at any time. Matching contributions for 2011 and 2010 were made in March 2012 and March 2011, respectively, entirely in Foot Locker Shares and recorded at the average of the high and low market price on the date of the Plan’s year-end. Additional contributions may be made at the discretion of the Company and are subject to certain limitations. No additional contributions were made in 2011 or 2010.

(c) Participant Accounts

Each participant's account is credited with (a) the participant's contributions and allocations of the Company's matching contribution and (b) Plan net earnings, and reduced by (c) Plan net losses (including maintenance fees paid by the participant) and (d) loan initiation fees, when applicable. Allocations are based on participants' salary deferrals or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account balance.

(d) Vesting

Participants are immediately vested in their contributions plus actual earnings thereon. Vesting in the Company's matching contributions and earnings thereon is over a five-year period; a participant vests 20% per year beginning after the first year of vesting service and is fully vested after five years of vesting service, as defined in the Plan document.

Foot Locker Puerto Rico 1165(e) Plan

Notes to Financial Statements

December 31, 2011 and 2010

(1), Continued

(e) Investment Options

During 2011, the Company liquidated the Artio International Equity II Fund as it was underperforming against its benchmark index. Funds were transferred into the Northern Trust Collective All Country Ex-US IMI Fund which invests primarily in international equities.

Participants may change their investment options daily. Participants may elect to allocate up to 25% of their contributions to Foot Locker, Inc. stock. In addition, each participant could direct his or her contributions to the following funds in 1% increments:

Northern Trust Focus Funds (age based) – Each Northern Trust Focus Fund invests in an array of underlying Northern Trust Funds, allowing the Participant to invest in a mix of stocks, bonds, and capital preservation investments. Some of the underlying funds held by the Northern Trust Focus Funds invest in international securities, which involve risks such as currency fluctuations and economic and political instability.

Baron Small Cap Fund – The fund seeks capital appreciation through long-term investments primarily in securities of small-sized growth companies. The fund intends that at least 80% of the fund's total assets are invested in the securities of small-sized growth companies. A small-sized growth company is defined as one having a market capitalization of under $2.5 billion at the time of purchase. The fund seeks to purchase securities that the advisor expects could increase in value 50% within two years.

Mainstay Large Cap Growth Fund – The fund's objective is to seek long-term growth of capital. The fund normally invests at least 80% of its assets in companies with market capitalization in excess of $4.0 billion at time of purchase.

Northern Collective All Country World Ex-US IMI Fund – The fund seeks to approximate the risk and return characteristics of the Morgan Stanley All Country World-ex US Investable Market Index. This index is commonly used to represent the non-US equity developed and emerging markets.

Northern Trust Collective S&P 500 Index Fund – The investment seeks to approximate the risk and return characteristics of the S&P 500 Index. This Index is commonly used to represent the large-cap segment of the

U.S. equity market.

Goldman Sachs Small Cap Value Fund – This fund seeks long-term capital appreciation by investing, under normal circumstances, at least 80% of its assets in a diversified portfolio of equity investments in small-cap issuers with public stock market capitalizations within the range of the market capitalization of companies constituting the Russell 2000 Value Index. The fund invests in small and/or midsize companies.

Loomis Sayles Value Fund – The investment seeks long-term growth of capital and income. The fund primarily invests in equity securities of medium-sized and large-sized companies. It may invest in common stocks, convertible securities, and warrants.

PIMCO Total Return Fund – The fund seeks maximum total return consistent with preservation of capital and prudent investment management. Investments are made primarily in a diversified portfolio of investment grade, fixed income securities of varying maturities, and can include U.S. Government and corporate bond securities, mortgage and other asset backed securities, U.S. dollar and non U.S. dollar-denominated securities of non U.S. issuers, and money market instruments.

Wells Fargo Stable Return Fund – The investment seeks safety of principal and consistency of returns with minimal volatility. The fund is for conservative investors seeking more income than money market funds an expectation of less price fluctuation of stock or bond funds. The fund intends to fully invested in book value investment instruments and employs a broad diversification among contract issuers and underlying securities. The fund’s returns will fluctuate with interest rates and market conditions.

Foot Locker Stock Fund - Participant’s assets are invested in Foot Locker Shares. Foot Locker Shares may be obtained by the Trustee directly from the Company out of its authorized but unissued shares of common stock or out of its treasury shares, or on the open market.

Foot Locker Puerto Rico 1165(e) Plan

Notes to Financial Statements

December 31, 2011 and 2010

(1), Continued

(f) Loans Receivable from Participants

Participants may borrow from their accounts once each year a minimum of $1,000, up to a maximum equal to the lesser of $50,000 or 50% of their total vested account balance. Loan transactions are treated as transfers between the investment funds and the participant loans fund. Loan terms range up to 5 years, or up to 15 years for the purchase of a primary residence. The loans bear a rate of interest equal to the prime rate on the date of the loan distribution. Principal and interest is generally paid ratably through regular payroll deductions. Loans receivable from participants totaling $150,849 and $104,301 were outstanding at December 31, 2011 and 2010, respectively, bearing interest rates ranging from 3.25% to 7.75% in 2011 and 2010.

(g) Payment of Benefits

Participants are eligible for a distribution on termination of service, death, disability or retirement. A participant will receive a lump-sum amount equal to the fair market value of the participant's vested interest in his or her account. A participant may elect to have any investment in the Foot Locker Stock Fund distributed either in shares or cash.

Participants are eligible for a distribution due to financial hardship under certain conditions in accordance with the Plan document.

(h) Forfeitures

Forfeited non-vested accounts totaled $1,638 and $835, as of December 31, 2011 and 2010, respectively, which may be used to pay future administrative expenses of the Plan and then to reduce future matching contributions. Administrative expenses paid from forfeited non-vested accounts amounted to $1,250 and $1,525 in 2011 and 2010, respectively.

(i) Administrative Fees

Included in administrative fees are amounts paid by participants for processing loans and investment management fees. To the extent expenses of administering the Plan are not paid by the Plan, the expenses are paid by the Company and therefore are not included in the accompanying financial statements.

(2) Summary of Accounting Principles

(a) Basis of Accounting

The financial statements of the Plan are prepared using the accrual basis method of accounting.

(b) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein and disclosure of contingent assets and liabilities. Actual results could differ from those estimates and assumptions.

(c) Investment Valuation and Income Recognition

The Plan's investments are stated at fair value. Investments in commingled funds are valued at the net asset value of units held by the Plan at year-end. Foot Locker Shares are valued at the quoted market price. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on an accrual basis. Dividends are recorded on the ex-dividend date.

The Plan has a fully-benefit responsive common collective trust as an investment, Wells Fargo Stable Return Fund. This type of investment contract is required to be reported at fair value. However, contract value is the relevant measurement for fully-benefit responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the Plan. The statements of net assets available for benefits present the adjustment of the fully benefit-responsive investment contract from fair value to contract value. The statements of changes in net assets available for benefits are prepared on a contract value basis.

(d) Loans Receivable from Participants

Loans receivable from participants are carried at their outstanding cost balances. Delinquent participant loans are reclassified as distributions based upon the terms of the plan document.

Foot Locker Puerto Rico 1165(e) Plan

Notes to Financial Statements

December 31, 2011 and 2010

(2), Continued

(e) Payment of Benefits

Benefits are recorded when paid.

(f) Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-04: Fair Value Measurement (Topic 820), *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS* resulting in additional disclosure requirements for fair value measurements. The update permits a reporting entity to measure the fair value of a group of financial assets and liabilities on the basis of the reporting entity's net exposure to market risks or to credit risk on a recurring basis, subject to specific requirements. The update also specifies that in the absence of Level 1 inputs, a reporting entity should apply premiums or discounts when market participants would take them into account when pricing the asset or liability. In addition, the update enhances the disclosure requirements which require reporting entities to provide quantitative information about the inputs used in fair value measurement, particularly information about unobservable input used within Level 3 of the fair value hierarchy. The update also requires a reporting entity to disclose the valuation processes used for fair value measurements within Level 3. These amendments are to be applied prospectively, and are effective for annual periods beginning after December 15, 2011. Early adoption is permitted for interim periods beginning after December 31, 2011. Management does not expect the adoption to have a significant impact on the financial statements.

Other recent accounting pronouncements issued by the FASB and the SEC did not, or are not believed by management to, have a material effect on the Plan's present or future financial statements.

(3) Plan Termination

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and/or to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants will become fully vested in their accounts.

(4) Tax Status

The Company believes that the Plan currently is designed and is being operated in compliance with the applicable requirements of the Puerto Rico Internal Revenue Code of 1994, as amended, and the trust established there under will be entitled to exemption from local income taxes.

Accounting principles generally accepted in the United States of America require plan management to evaluate tax positions taken by the Plan and recognize a tax liability (or asset) if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. The Plan administrator has analyzed the tax positions taken by the Plan, and has concluded that as of December 31, 2011, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

(5) Risks and Uncertainties

The Plan offers a number of investment options including participant investments in Foot Locker Shares. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statement of net assets available for benefits.

The Plan's exposure to a concentration of credit risk is limited by the diversification of investments across all participant-directed fund elections. Additionally, the investments within each participant-directed fund election are further diversified into varied financial instruments, with the exception of the Foot Locker Stock Fund, which invests in the securities of a single issuer.

The Plan's investments include commingled funds that may directly or indirectly invest in securities with contractual cash flows, such as asset backed securities, collateralized mortgage obligations and commercial mortgage backed securities, including securities backed by subprime mortgage loans. The value, liquidity and related income of these securities is sensitive to changes in economic conditions, including real estate value, delinquencies of defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates.

Foot Locker Puerto Rico 1165(e) Plan

Notes to Financial Statements

December 31, 2011 and 2010

(6) Investments

The following investments represent five percent or more of the Plan's net assets at December 31, 2011 and 2010:

	2011
Northern Trust Focus 2030 Fund – 1,020 units	$116,969
Northern Trust Focus 2035 Fund – 2,851 units	325,989
Northern Trust Focus 2040 Fund – 1,656 units	188,728
Northern Trust Focus 2045 Fund – 2,667 units	304,005
Northern Trust Focus 2050 Fund – 1,975 units	225,190
Foot Locker Stock Fund – 20,590 shares	490,859

	2010
Northern Trust Focus 2030 Fund – 833 units	$96,994
Northern Trust Focus 2035 Fund – 2,328 units	273,723
Northern Trust Focus 2040 Fund – 1,566 units	184,139
Northern Trust Focus 2045 Fund – 2,387 units	280,561
Northern Trust Focus 2050 Fund – 1,591 units	187,090
Foot Locker Stock Fund – 18,224 shares	357,555

The Plan's investments, including gains and losses on investments bought and sold, as well as held during the year, appreciated (depreciated) in value by $48,707 and $314,684 in 2011 and 2010, respectively.

	2011	2010
Commingled funds	$(39,303)	$154,982
Foot Locker Stock Fund	88,010	159,702

$48,707	$314,684

(7) Fair Value Measurements

The Plan categorizes its financial assets into a three-level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument. Fair value is determined based upon the exit price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants exclusive of any transaction costs.

Foot Locker Puerto Rico 1165(e) Plan

Notes to Financial Statements

December 31, 2011 and 2010

(7), Continued

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

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

The following tables provide a summary, by level, of the Plan's financial assets that are measured at fair value on a recurring basis:

	Fair Value Measurements at 12/31/11			
Description	Level 1	Level 2	Level 3	Total
Commingled funds:				
Balanced Fund	$-	$1,297,103	$ -	$1,297,103
Stable value / capital preservation investment contract*	-	35,488	-	35,488
U.S. equity large cap structured funds	-	18,844	-	18,844
U.S. equity large cap blend fund (S&P 500 Index Fund)	-	6,793	-	6,793
U.S. equity small cap growth	-	3,054	-	3,054
U.S. equity Income Fund	-	8,635	-	8,635
International equity funds	-	8,674	-	8,674
Foot Locker Stock Fund	490,859	-	-	490,859
	$490,859	$1,378,591	$ –	$1,869,450

Description	Fair Value Measurements at 12/31/10 Level 1	Level 2	Level 3	Total
Commingled funds:				
Balanced Fund	$-	$1,124,187	$ -	$1,124,187
Stable value / capital preservation investment contract	-	29,518	-	29,518
U.S. equity large cap structured funds	-	24,843	-	24,843
U.S. equity large cap blend fund (S&P 500 Index Fund)	-	7,862	-	7,862
U.S. equity small cap growth	-	3,415	-	3,415
U.S. equity Income Fund	-	8,845	-	8,845
International equity funds	-	8,340	-	8,340
Foot Locker Stock Fund	357,555	-	-	