

FOOT LOCKER, INC.  
Form 10-Q  
June 08, 2016  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

---

FORM 10-Q

(Mark One)

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

For the quarterly period ended: April 30, 2016

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-10299

---

(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.)

330 West 34th Street, New York, New York 10001

(Address of principal executive offices, Zip Code)

(212-720-3700)

(Registrant's telephone number, including area code)

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

(Former address, if changed since last report)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

Number of shares of Common Stock outstanding as of May 27, 2016: 135,309,044

---

FOOT LOCKER, INC.

TABLE OF CONTENTS

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets</u>	1
<u>Condensed Consolidated Statements of Operations</u>	2
<u>Condensed Consolidated Statements of Comprehensive Income</u>	3
<u>Condensed Consolidated Statements of Cash Flows</u>	4
<u>Notes to Condensed Consolidated Financial Statements</u>	5
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	16
<u>Item 4. Controls and Procedures</u>	24
<u>PART II OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	24
<u>Item 1A. Risk Factors</u>	24
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	24
<u>Item 6. Exhibits</u>	24
<u>SIGNATURE</u>	25
<u>INDEX OF EXHIBITS</u>	26

## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

## FOOT LOCKER, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(\$ in millions, except shares)

	April 30, 2016 (Unaudited)	May 2, 2015 (Unaudited)	January 30, 2016 *
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 1,062	\$ 986	\$ 1,021
Merchandise inventories	1,260	1,234	1,285
Other current assets	270	259	300
	2,592	2,479	2,606
Property and equipment, net	706	639	661
Deferred taxes	182	226	234
Goodwill	157	156	156
Other intangible assets, net	46	48	45
Other assets	75	83	73
	\$ 3,758	\$ 3,631	\$ 3,775
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities			
Accounts payable	\$ 230	\$ 303	\$ 279
Accrued and other liabilities	347	387	420
Current portion of capital lease obligations	1	2	1
	578	692	700
Long-term debt and obligations under capital leases	128	131	129
Other liabilities	377	253	393
Total liabilities	1,083	1,076	1,222
Shareholders' equity			

Edgar Filing: FOOT LOCKER, INC. - Form 10-Q

Common stock and paid-in capital: 173,885,868; 171,833,686 and 173,397,913 shares, respectively	1,127	1,025	1,108
Retained earnings	3,336	2,929	3,182
Accumulated other comprehensive loss	(323)	(318)	(366)
Less: Treasury stock at cost: 37,896,771; 32,094,240 and 36,421,104 shares, respectively	(1,465)	(1,081)	(1,371)
Total shareholders' equity	2,675	2,555	2,553
	\$ 3,758	\$ 3,631	\$ 3,775

See Accompanying Notes to Condensed Consolidated Financial Statements.

\* The balance sheet at January 30, 2016 has been derived from the previously reported audited financial statements at that date, but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in Foot Locker, Inc.'s Annual Report on Form 10-K for the year ended January 30, 2016.

FOOT LOCKER, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in millions, except per share amounts)

	Thirteen weeks ended	
	April 30, 2016	May 2, 2015
Sales	\$ 1,987	\$ 1,916
Cost of sales	1,291	1,246
Selling, general and administrative expenses	361	345
Depreciation and amortization	39	35
Interest expense, net	—	1
Other income	(2)	(1)
	1,689	1,626
Income before income taxes	298	290
Income tax expense	107	106
Net income	\$ 191	\$ 184
Basic earnings per share	\$ 1.40	\$ 1.31
Weighted-average shares outstanding	136.5	140.1
Diluted earnings per share	\$ 1.39	\$ 1.29
Weighted-average shares outstanding, assuming dilution	137.8	142.1

See Accompanying Notes to Condensed Consolidated Financial Statements.





FOOT LOCKER, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(\$ in millions)

	Thirteen weeks ended	
	April 30, 2016	May 2, 2015
Net income	\$ 191	\$ 184
Other comprehensive income, net of income tax		
Foreign currency translation adjustment:		
Translation adjustment arising during the period, net of income tax	44	1
Cash flow hedges:		
Change in fair value of derivatives, net of income tax	—	(1)
Pension and postretirement adjustments:		
Amortization of net actuarial gain/loss and prior service cost included in net periodic benefit costs, net of income tax expense of \$1 million and \$1 million, respectively, and foreign currency fluctuations	(1)	1
Comprehensive income	\$ 234	\$ 185

See Accompanying Notes to Condensed Consolidated Financial Statements.



FOOT LOCKER, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(\$ in millions)

	Thirteen weeks ended	
	April 30, 2016	May 2, 2015
From Operating Activities		
Net income	\$ 191	\$ 184
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	39	35
Share-based compensation expense	5	6
Excess tax benefits on share-based compensation	(6)	(14)
Qualified pension plan contributions	(25)	—
Change in assets and liabilities:		
Merchandise inventories	39	17
Accounts payable	(54)	2
Accrued and other liabilities	(14)	(10)
Other, net	37	(7)
Net cash provided by operating activities	212	213
From Investing Activities		
Capital expenditures	(65)	(60)
Net cash used in investing activities	(65)	(60)
From Financing Activities		
Purchase of treasury shares	(88)	(129)
Dividends paid on common stock	(37)	(35)
Proceeds from exercise of stock options	7	23
Excess tax benefits on share-based compensation	6	14

Edgar Filing: FOOT LOCKER, INC. - Form 10-Q

Net cash used in financing activities	(112)	(127)
Effect of Exchange Rate Fluctuations on Cash and Cash Equivalents	6	(7)
Net Change in Cash and Cash Equivalents	41	19
Cash and Cash Equivalents at Beginning of Period	1,021	967
Cash and Cash Equivalents at End of Period	\$ 1,062	\$ 986
Cash Paid During the Period:		
Interest	\$ —	\$ —
Income taxes	\$ 115	\$ 126

See Accompanying Notes to Condensed Consolidated Financial Statements.

FOOT LOCKER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated financial statements contained in this report are unaudited. In the opinion of management, the condensed consolidated financial statements include all adjustments, which are of a normal recurring nature, necessary for a fair presentation of the results for the interim periods of the fiscal year ending January 28, 2017 and of the fiscal year ended January 30, 2016. Certain items included in these statements are based on management's estimates. Actual results may differ from those estimates. The results of operations for any interim period are not necessarily indicative of the results expected for the year. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Notes to Consolidated Financial Statements contained in Foot Locker, Inc.'s (the "Company") Form 10-K for the year ended January 30, 2016, as filed with the U.S. Securities and Exchange Commission (the "SEC") on March 24, 2016.

Recent Accounting Pronouncements

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. ASU 2015-17 requires all deferred tax liabilities and assets to be presented in the balance sheet as noncurrent. The Company early adopted this standard on a prospective basis as of the quarter ended April 30, 2016. As a result, the Company reclassified deferred tax assets and deferred tax liabilities classified as current to noncurrent. No prior periods were retrospectively adjusted.

In February 2016, the FASB issued ASU 2016-02, Leases. This ASU revises the existing guidance related to leases by requiring lessees to recognize a lease liability and a right-of-use asset for all leases, as well as additional disclosure regarding leasing arrangements. This standard will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and requires a modified retrospective adoption, with earlier adoption permitted. The Company is currently evaluating the effects of the adoption of this ASU on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 simplifies certain aspects of the accounting for share-based payment transactions, including tax consequences, classification of awards, the option to recognize stock compensation expense with actual forfeitures as they occur, and the classifications on the statement of cash flows. ASU 2016-09 is effective for annual reporting beginning after December 15, 2016, including interim periods within that reporting period, with early adoption permitted. The manner of adoption varies, with certain provisions applied on a retrospective or modified retrospective approach, while others are applied prospectively. The Company is currently evaluating the effects of the adoption of this ASU on its consolidated financial statements.

In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. ASU 2016-10 clarifies the implementation guidance on identifying performance obligations and licensing on the previously issued ASU 2014-09, Revenue from Contracts with Customers. In May 2016, the FASB issued ASU 2016-11, Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting. ASU 2016-11 rescinds several SEC Staff Announcements that are codified in Topic 605, including, among other items, guidance relating to accounting for shipping and handling fees and freight services. ASU 2016-10 and ASU 2016-11 are effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim periods within that year. ASU 2016-10 and ASU 2016-11 can be adopted either retrospectively to each prior reporting period presented or as a cumulative-effect adjustment as of the date of adoption. The Company is currently evaluating the effects of the adoption of these ASUs on its consolidated financial statements.

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

FOOT LOCKER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 2. Segment Information

The Company has determined that its reportable segments are those that are based on its method of internal reporting. The Company has two reportable segments, Athletic Stores and Direct-to-Customers. The Company evaluates performance based on several factors, of which the primary financial measure is division results. Division profit reflects income before income taxes, corporate expense, non-operating income, and net interest expense.

	Thirteen weeks ended April 30,      May 2, 2016      2015 (\$ in millions)	
Sales		
Athletic Stores	\$ 1,735	\$ 1,681
Direct-to-Customers	252	235
Total sales	\$ 1,987	\$ 1,916
Operating Results		
Athletic Stores	\$ 277	\$ 267
Direct-to-Customers	38	40
Division profit	315	307
Less: Corporate expense	19	17
Operating profit	296	290
Interest expense, net	—	1
Other income (1)	2	1
Income before income taxes	\$ 298	\$ 290

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

## 3. Goodwill

Annually during the first quarter, or more frequently if impairment indicators arise, the Company reviews goodwill and intangible assets with indefinite lives for impairment. The annual review of goodwill and intangible assets with indefinite lives performed during the first quarter of 2016 did not result in the recognition of impairment. The following table provides a summary of goodwill by reportable segment. The change in the balance primarily represents foreign currency exchange fluctuations.

	April 30, 2016	May 2, 2015	January 30, 2016
	(\$ in millions)		
Athletic Stores	\$ 17	\$ 17	\$ 17
Direct-to-Customers	140	139	139
	\$ 157	\$ 156	\$ 156



FOOT LOCKER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 4. Other Intangible Assets, net

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

(\$ in millions)	April 30, 2016			May 2, 2015			January 30, 2016		
	Gross value	Accum. amort.	Net Value	Gross Value	Accum. amort.	Net Value	Gross value	Accum. amort.	Net Value
Amortized intangible assets:									
(1)									
Lease acquisition costs	\$ 123	\$ (111)	\$ 12	\$ 126	\$ (115)	\$ 11	\$ 119	\$ (107)	\$ 12
Trademarks / trade names	21	(13)	8	21	(12)	9	20	(12)	8
Favorable leases	7	(5)	2	7	(4)	3	7	(5)	2
	\$ 151	\$ (129)	\$ 22	\$ 154	\$ (131)	\$ 23	\$ 146	\$ (124)	\$ 22

	April 30, 2016	May 2, 2015	January 30, 2016
	Net Value	Net Value	Net Value
Indefinite life intangible assets: (1)			
Runners Point Group trademarks / trade names	\$ 24	\$ 25	\$ 23
Other intangible assets, net	\$ 46	\$ 48	\$ 45

(1) The change in the ending balances also reflects the effect of foreign currency fluctuations due primarily to the movements of the euro in relation to the U.S. dollar.

For the thirteen-week period ended April 30, 2016, activity included a \$1 million increase related to foreign currency fluctuations and \$1 million of lease acquisition additions primarily related to our European businesses, which are being amortized over a weighted-average life of 10 years. This was partially offset by amortization of \$1 million.

(\$ in millions)	Thirteen weeks ended	
	April 30, 2016	May 2, 2015
Amortization expense	\$ 1	\$ 1

Estimated future amortization expense for finite life intangible assets is as follows:

	(\$ in millions)
Remainder of 2016	\$ 3
2017	4
2018	3
2019	3
2020	3
2021	2

FOOT LOCKER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 5. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss (“AOCL”), net of tax, is comprised the following:

	April 30, 2016	May 2, 2015	January 30, 2016
	(\$ in millions)		
Foreign currency translation adjustments	\$ (75)	\$ (74)	\$ (119)
Cash flow hedges	2	(4)	2
Unrecognized pension cost and postretirement benefit	(249)	(239)	(248)
Unrealized loss on available-for-sale security	(1)	(1)	(1)
	\$ (323)	\$ (318)	\$ (366)

The changes in AOCL for the thirteen weeks ended April 30, 2016 were as follows:

	Foreign Currency Translation Adjustments	Cash Flow Hedges	Items Related to Pension and Postretirement Benefits	Unrealized Loss on Available-For- Sale Security	Total
(\$ in millions)					
Balance as of January 30, 2016	\$ (119)	\$ 2	\$ (248)	\$ (1)	\$ (366)
OCI before reclassification	44	—	(3)	—	41
Reclassified from AOCI	—	—	2	—	2

Edgar Filing: FOOT LOCKER, INC. - Form 10-Q

Other comprehensive income/ (loss)	44	—	(1)	—	43
Balance as of April 30, 2016	\$ (75)	\$ 2	\$ (249)	\$ (1)	\$ (323)

Reclassifications from AOCL for the thirteen weeks ended April 30, 2016 were as follows:

	(\$ in millions)
Amortization of actuarial (gain) loss:	
Pension benefits- amortization of actuarial loss	\$ 4
Postretirement benefits- amortization of actuarial gain	(1)
Net periodic benefit cost (see Note 9)	3
Income tax benefit	(1)
Net of tax	\$ 2

## 6. Financial Instruments

The Company operates internationally and utilizes certain derivative financial instruments to mitigate its foreign currency exposures, primarily related to third-party and intercompany forecasted transactions. As a result of the use of derivative instruments, the Company is exposed to the risk that counterparties will fail to meet their contractual obligations. To mitigate this counterparty credit risk, the Company has a practice of entering into contracts only with major financial institutions selected based upon their credit ratings and other financial factors. The Company monitors the creditworthiness of counterparties throughout the duration of the derivative instrument. Additional information is contained within Note 7, Fair Value Measurements.

FOOT LOCKER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Derivative Holdings Designated as Hedges

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

The primary currencies to which the Company is exposed are the euro, British pound, Canadian dollar, and Australian dollar. For the most part, merchandise inventories are purchased by each geographic area in their respective local currency. The exception to this is the United Kingdom, whose merchandise inventory purchases are denominated in euros. For option and foreign exchange forward contracts designated as cash flow hedges of the purchase of inventory, the effective portion of gains and losses is deferred as a component of AOCL and is recognized as a component of cost of sales when the related inventory is sold. The amount reclassified to cost of sales related to such contracts was not significant for any of the periods presented. The effective portion of gains or losses associated with other forward contracts is deferred as a component of AOCL until the underlying transaction is reported in earnings. The ineffective portion of gains and losses related to cash flow hedges recorded to earnings was also not significant for any of the periods presented. When using a forward contract as a hedging instrument, the Company excludes the time value of the contract from the assessment of effectiveness. At each quarter-end, substantially all of the Company's hedged forecasted transactions are less than twelve months, and the Company expects substantially all derivative-related amounts reported in AOCL to be reclassified to earnings within twelve months.

The net change in the fair value of the foreign exchange derivative financial instruments designated as cash flow hedges of the purchase of inventory was not significant for the thirteen weeks ended April 30, 2016, and therefore AOCL remained unchanged. At April 30, 2016, there was a \$2 million gain included in AOCL. For the thirteen weeks ended May 2, 2015, the net change resulted in a loss of \$1 million. The notional value of the foreign exchange contracts designed as hedges outstanding at April 30, 2016 was \$97 million, and these contracts mature at various dates through July 2017.

Derivative Holdings Not Designated as Hedges

The Company enters into foreign exchange forward contracts that are not designated as hedges in order to manage the costs of foreign-currency denominated merchandise purchases and intercompany transactions. Changes in the fair value of these foreign exchange forward contracts are recorded in earnings immediately within selling, general and administrative expenses. The net change in fair value resulted in expense of \$1 million for the thirteen weeks ended April 30, 2016. The net change in fair value resulted in income of \$1 million for the thirteen weeks ended May 2, 2015. The notional value of the foreign exchange contracts not designed as hedges outstanding at April 30, 2016 was \$12 million, and these contracts mature at various dates through October 2016.

FOOT LOCKER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Company mitigates the effect of fluctuating foreign exchange rates on the reporting of foreign-currency denominated earnings by entering into currency option contracts. Changes in the fair value of these foreign currency option contracts, which are not designated as hedges, are recorded in earnings immediately within other income. The realized gains, premiums paid, and changes in the fair market value recorded were not significant for any of the periods presented. No such contracts were outstanding at April 30, 2016.

Additionally, the Company enters into diesel fuel forward and option contracts to mitigate a portion of the Company's freight expense due to the variability caused by fuel surcharges imposed by our third-party freight carriers. Changes in the fair value of these contracts are recorded in earnings immediately. The effect was not significant for any of the periods presented. The notional value of the diesel fuel forward contracts outstanding was not significant at April 30, 2016 and these contracts mature in May 2016.

## Fair Value of Derivative Contracts

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

	Balance Sheet Caption	April 30, 2016	May 2, 2015	January 30, 2016
(\$ in millions)				
Hedging Instruments:				
Foreign exchange forward contracts	Current assets	\$ 3	\$ —	\$ 3
Foreign exchange forward contracts	Current liabilities	\$ —	\$ 5	\$ —
Foreign exchange forward contracts	Non-current liabilities	\$ 1	—	—

## 7. Fair Value Measurements

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

Level 1 –Quoted prices for identical instruments in active markets.

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

Level 3 –Model-derived valuations in which one or more significant inputs or significant value-drivers are unobservable.

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

	As of April 30, 2016			As of May 2, 2015			As of January 30, 2016		
	(\$ in millions)								
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>Assets</b>									
Available-for-sale securities	\$ —	\$ 6	\$ —	\$ —	\$ 6	\$ —	\$ —	\$ 6	\$ —
Foreign exchange forward contracts	—	2	—	—	—	—	—	3	—
<b>Total Assets</b>	<b>\$ —</b>	<b>\$ 8</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 6</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 9</b>	<b>\$ —</b>
<b>Liabilities</b>									
Foreign exchange forward contracts	—	—	—	—	5	—	—	—	—
<b>Total Liabilities</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 5</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>



FOOT LOCKER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Securities classified as available-for-sale are recorded at fair value with unrealized gains and losses reported, net of tax, in other comprehensive income, unless unrealized losses are determined to be other than temporary. The fair value of the auction rate security is determined by using quoted prices for similar instruments in active markets and accordingly is classified as a Level 2 instrument.

The Company's derivative financial instruments are valued using market-based inputs to valuation models. These valuation models require a variety of inputs, including contractual terms, market prices, yield curves, and measures of volatility and, therefore, are classified as Level 2 instruments.

There were no transfers into or out of Level 1, Level 2, or Level 3 assets and liabilities for any of the periods presented.

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

	April 30, 2016	May 2, 2015	January 30, 2016
	(\$ in millions)		
Carrying value	\$ 129	\$ 133	\$ 130
Fair value	\$ 149	\$ 158	\$ 156

The fair value of long-term debt is determined by using model-derived valuations in which all significant inputs or significant value drivers are observable in active markets and, therefore, are classified as Level 2. The carrying values of cash and cash equivalents and other current receivables and payables approximate their fair value.

#### 8. Earnings Per Share

The Company accounts for and discloses earnings per share using the treasury stock method. Basic earnings per share is computed by dividing net income for the period by the weighted-average number of common shares outstanding.

Restricted stock awards, which contain non-forfeitable rights to dividends, are considered participating securities and are included in the calculation of basic earnings per share. Diluted earnings per share reflects the weighted-average number of common shares outstanding during the period used in the basic earnings per share computation plus dilutive common stock equivalents.

The computation of basic and diluted earnings per share is as follows:

	Thirteen weeks ended	
	April 30, 2016	May 2, 2015
	(in millions, except per share data)	
Net Income	\$ 191	\$ 184
Weighted-average common shares outstanding	136.5	140.1
Basic earnings per share	\$ 1.40	\$ 1.31
Weighted-average common shares outstanding	136.5	140.1
Dilutive effect of potential common shares	1.3	2.0
Weighted-average common shares outstanding assuming dilution	137.8	142.1
Diluted earnings per share	\$ 1.39	\$ 1.29

Options to purchase 0.2 million and 0.4 million shares of common stock were not included in the computation for the thirteen weeks ended April 30, 2016 and May 2, 2015, respectively. These options were not included because the effect would have been antidilutive. Contingently issuable shares of 0.3 million have not been included as the vesting conditions have not been satisfied as of April 30, 2016 and May 2, 2015.

FOOT LOCKER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 9. Pension and Postretirement Plans

The Company has defined benefit pension plans covering certain of its North American employees, which are funded in accordance with the provisions of the laws where the plans are in effect. In addition, the Company has a defined benefit pension plan covering certain employees of the Runners Point Group.

In addition to providing pension benefits, the Company sponsors postretirement medical and life insurance plans, which are available to most of its retired U.S. employees. These medical and life insurance plans are contributory and are not funded.

The following are the components of net periodic pension benefit cost and net periodic postretirement benefit income, which is recognized as part of SG&A expense:

	Pension Benefits		Postretirement Benefits	
	Thirteen weeks ended		Thirteen weeks ended	
	April 30,	May 2,	April 30,	May 2,
(\$ in millions)	2016	2015	2016	2015
Service cost	\$ 4	\$ 4	\$ —	\$ —
Interest cost	6	6	—	—
Expected return on plan assets	(9)	(9)	—	—
Amortization of net loss (gain)	4	3	(1)	—
Net benefit expense (income)	\$ 5	\$ 4	\$ (1)	\$ —

On February 24, 2016, the Company made a contribution of \$25 million to the U.S. qualified plan. The Company continually evaluates the amount and timing of any future contributions. The Company currently does not expect to make any further pension plan contributions during the current year. Actual contributions are dependent on several factors, including the outcome of the ongoing pension litigation. See Note 11, Legal Proceedings, for further information.

## 10. Share-Based Compensation

Total compensation expense included in SG&A, and the associated tax benefits recognized related to the Company's share-based compensation plans were as follows:

	Thirteen weeks ended	
	April 30, 2016	May 2, 2015
	(\$ in millions)	
Options and shares purchased under the employee stock purchase plan	\$ 3	\$ 3
Restricted stock and restricted stock units	2	3
Total share-based compensation expense	\$ 5	\$ 6
Tax benefit recognized	\$ 1	\$ 2
Excess income tax benefit from settled equity-classified share-based awards reported as a cash flow from financing activities	\$ 6	\$ 14

FOOT LOCKER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Valuation Model and Assumptions

The Company uses a Black-Scholes option-pricing model to estimate the fair value of share-based awards. The Black-Scholes option-pricing model incorporates various and highly subjective assumptions, including expected term and expected volatility. The following table shows the Company's assumptions used to compute the share-based compensation expense:

	Stock Option Plans				Stock Purchase Plan			
	April 30, 2016		May 2, 2015		April 30, 2016		May 2, 2015	
Weighted-average risk free rate of interest	1.4	%	1.5	%	0.3	%	0.1	%
Expected volatility	30	%	30	%	25	%	23	%
Weighted-average expected award life (in years)	5.7		6.0		1.0		1.0	
Dividend yield	1.7	%	1.6	%	1.6	%	1.8	%
Weighted-average fair value	\$ 15.78		\$ 16.01		\$ 11.12		\$ 8.03	

The information in the following table covers options granted under the Company's stock option plans for the thirteen weeks ended April 30, 2016:

	Number of Shares (in thousands)	Weighted- Average Remaining Contractual Life (in years)	Weighted- Average Exercise Price (per share)
Options outstanding at the beginning of the year	3,694		\$ 32.62
Granted	465		63.79
Exercised	(324)		22.16
Expired or cancelled	(18)		52.96
Options outstanding at April 30, 2016	3,817	5.9	\$ 37.21
Options exercisable at April 30, 2016	2,713	4.6	\$ 27.86

Edgar Filing: FOOT LOCKER, INC. - Form 10-Q

Options vested and expected to vest at April 30, 2016	3,767	5.9	\$ 36.89
Options available for future grant at April 30, 2016	12,050		

The total fair value of options vested as of April 30, 2016 and May 2, 2015 was \$8 million and \$11 million, respectively. The cash received from option exercises for the thirteen weeks ended April 30, 2016 and May 2, 2015 was \$7 million and \$23 million, respectively. The total intrinsic value of options exercised (the difference between the market price of the Company's common stock on the exercise date and the price paid by the optionee to exercise the option) is presented below:

	Thirteen	
	weeks ended	
	April	May
	30,	2,
	2016	2015
	(\$ in	
	millions)	
Exercised	\$ 14	\$ 36

The total tax benefit realized from option exercises was \$5 million and \$14 million for the thirteen weeks ended April 30, 2016 and May 2, 2015, respectively.

FOOT LOCKER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The aggregate intrinsic value for stock options outstanding, outstanding and exercisable, and vested and expected to vest (the difference between the Company's closing stock price on the last trading day of the period and the exercise price of the options, multiplied by the number of in-the-money stock options) is presented below:

	Thirteen weeks ended	
	April 30, 2016	May 2, 2015
	(\$ in millions)	
Outstanding	\$ 94	\$ 153
Outstanding and exercisable	\$ 91	\$ 137
Vested and expected to vest	\$ 94	\$ 153

As of April 30, 2016 there was \$12 million of total unrecognized compensation cost, net of estimated forfeitures, related to nonvested stock options, which is expected to be recognized over a remaining weighted-average period of 1.7 years. The following table summarizes information about stock options outstanding and exercisable at April 30, 2016:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted- Average Remaining Contractual Life	Weighted- Average Exercise Price	Number Exercisable	Weighted- Average Exercise Price
	(in thousands, except prices per share and contractual life)				
\$9.85 to \$15.10	746	2.4	\$ 12.95	746	\$ 12.95
\$18.80 to \$30.92	996	3.7	22.73	996	22.73
\$34.12 to \$56.35	954	7.1	41.08	745	39.26
\$62.02 to \$73.21	1,121	9.2	62.92	226	62.11
	3,817	5.9	\$ 37.21	2,713	\$ 27.86

Restricted Stock and Restricted Stock Units

Restricted shares of the Company's common stock and restricted stock units ("RSU") may be awarded to certain officers, key employees of the Company, and to nonemployee directors. Additionally, RSU awards are made in connection with the Company's long-term incentive program. Each RSU represents the right to receive one share of the Company's common stock provided that the performance and vesting conditions are satisfied. There were 660,797 and 594,910 RSU awards outstanding as of April 30, 2016 and May 2, 2015, respectively.

Generally, awards fully vest after the passage of time, typically three years. However, RSU awards made in connection with the Company's long-term incentive program vest after the attainment of both certain performance metrics and the passage of time. Restricted stock is considered outstanding at the time of grant and the holders have voting rights. Dividends are paid to holders of restricted stock that vest with the passage of time. With regard to performance-based restricted stock, dividends will be accumulated and paid after the performance criteria are met. No dividends are paid or accumulated on RSU awards. Compensation expense is recognized using the fair market value at the date of grant and is amortized over the vesting period, provided the recipient continues to be employed by the Company.



FOOT LOCKER, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Restricted stock and RSU activity for the thirteen weeks ended April 30, 2016 is summarized as follows:

	Number of Shares (in thousands)	Weighted- Average Remaining Contractual Life (in years)	Weighted-Average Grant Date Fair Value (per share)
Nonvested at beginning of year	803		\$ 45.19
Granted	339		64.24
Vested	(193)		35.36
Expired or cancelled	(122)		38.87
Nonvested at April 30, 2016	827	1.7	\$ 56.23
Aggregate value (\$ in millions)	\$ 47		

The total value of awards for which restrictions lapsed for the thirteen weeks ended April 30, 2016 and May 2, 2015 was \$7 million and \$9 million, respectively. As of April 30, 2016, there was \$20 million of total unrecognized compensation cost net of forfeitures related to nonvested restricted awards.

## 11. Legal Proceedings

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

The Company and the Company's U.S. retirement plan are defendants in a class action (Osberg v. Foot Locker Inc. et ano., filed in the U.S. District Court for the Southern District of New York) in which the plaintiff alleges that, in connection with the 1996 conversion of the retirement plan to a defined benefit plan with a cash balance formula, the Company and the retirement plan failed to properly advise plan participants of the "wear-away" effect of the conversion. Plaintiff's claims were for breach of fiduciary duty under the Employee Retirement Income Security Act of 1974, as amended, and violation of the statutory provisions governing the content of the Summary Plan Description. The trial was held in July 2015 and the court issued a decision in September 2015 in favor of the class on the foregoing claims.

The court ordered that the Plan be reformed. The Company is appealing the court's decision, and the judgment has been stayed pending the outcome of the appeal. As a result of this development, the Company determined that it is probable a liability exists. The Company's reasonable estimate of this liability is a range between \$100 million and \$200 million, with no amount within that range more probable than any other amount. Therefore, in accordance with U.S. GAAP, the Company recorded a charge of \$100 million pre-tax (\$61 million after-tax) in the third quarter of 2015. This amount has been classified as a long-term liability. The Company will continue to vigorously defend itself in this case. In light of the uncertainties involved in this matter, there is no assurance that the ultimate resolution will not differ from the amount currently accrued by the Company.

Management does not believe that the outcome of any such legal proceedings pending against the Company or its consolidated subsidiaries, as described above, would have a material adverse effect on the Company's consolidated financial position, liquidity, or results of operations, taken as a whole, based upon current knowledge and taking into consideration current accruals. Litigation is inherently unpredictable, and judgments could be rendered or settlements entered into that could adversely affect the Company's operating results or cash flows in a particular period.

FOOT LOCKER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

12. Subsequent Event

On May 19, 2016, the Company entered into a new credit agreement with its banks (“New Credit Agreement”) that replaces the Company’s existing credit agreement. The New Credit Agreement provides for a \$400 million asset-based revolving credit facility maturing on May 19, 2021. Additionally, during the term of the New Credit Agreement, the Company may increase the commitments by up to \$200 million, subject to customary conditions. Interest is determined, at the Company’s option, by the federal funds rate plus a margin of 0.125 percent to 0.375 percent or the LIBOR rate plus a margin of 1.125 percent to 1.375 percent depending on availability under the New Credit Agreement. In addition, the Company will pay a commitment fee of 0.20 percent per annum on the unused portion of the commitments.

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

Business Overview

Foot Locker, Inc., through its subsidiaries, operates in two reportable segments – Athletic Stores and Direct-to-Customers. The Athletic Stores segment is one of the largest athletic footwear and apparel retailers in the world, with formats that include Foot Locker, Lady Foot Locker, SIX:02, Kids Foot Locker, Champs Sports, Footaction, Runners Point, and Sidestep. The Direct-to-Customers segment includes Footlocker.com, Inc. and other affiliates, including Eastbay, Inc., and our international ecommerce businesses, which sell to customers through their Internet and mobile sites and catalogs.

The Foot Locker brand is one of the most widely recognized names in the markets in which the Company operates, epitomizing premium 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, such as Lady Foot Locker, and

Kids Foot Locker, as well as Footlocker.com, its direct-to-customer business. Through various marketing channels, including broadcast, digital, social, print, and various sports sponsorships and events, the Company reinforces its image with a consistent message — namely, that it is the destination for athletically inspired shoes and apparel with a wide selection of merchandise in a full-service environment.

#### Store Count

At April 30, 2016, the Company operated 3,396 stores as compared with 3,383 and 3,419 stores at January 30, 2016 and May 2, 2015, respectively. A total of 64 franchised stores were operating at April 30, 2016, as compared with 64 and 82 stores at January 30, 2016 and May 2, 2015, respectively. Revenue from the franchised stores was not significant for any of the periods presented. These stores are not included in the Company's operating store count above.

#### Sales

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

Sales increased by \$71 million, or 3.7 percent, to \$1,987 million for the thirteen weeks ended April 30, 2016, from \$1,916 million for the thirteen weeks ended May 2, 2015. Comparable-store sales increased by 2.9 percent for the thirteen weeks ended April 30, 2016.

## Gross Margin

	Thirteen weeks ended	
	April 30, 2016	May 2, 2015
Gross margin rate	35.0 %	35.0 %
Basis point change in the gross margin rate	—	
Components of the change-		
Merchandise margin rate improvement	20	
Higher occupancy and buyers' compensation expense rate	(20)	

The gross margin rate remained unchanged for the thirteen weeks ended April 30, 2016 as compared with the corresponding prior-year period. This reflected a merchandise margin rate improvement of 30 basis points, primarily due to a lower markdown rate as we increased full-price selling during the current period. This improvement was partially offset by an increase in shipping and handling costs, which reduced the merchandise margin rate by 10 basis points. Occupancy and buyer's compensation expense increased at a rate higher than the increase in sales and reduced the gross margin rate by 20 basis points.

## Selling, General and Administrative Expenses (SG&amp;A)

	Thirteen weeks ended	
	April 30, 2016	May 2, 2015
	(\$ in millions)	
SG&A	\$ 361	\$ 345
\$ Change	\$ 16	
% Change	4.6 %	
SG&A as a percentage of sales	18.2 %	18.0 %

SG&A increased by \$16 million for the thirteen weeks ended April 30, 2016 as compared with the corresponding prior-year period. The effect of foreign currency fluctuations for this period was not significant. The SG&A rate increased 20 basis points compared with the prior year, reflecting higher corporate expenses related to the relocation

of the corporate headquarters within New York City. Relocation costs totaled \$4 million.

#### Depreciation and Amortization

	Thirteen weeks ended	
	April	May
	30,	2,
	2016	2015
	(\$ in millions)	
Depreciation and amortization	\$ 39	\$ 35
\$ Change	\$ 4	
% Change	11.4 %	

Depreciation and amortization increased by \$4 million for the thirteen weeks ended April 30, 2016 as compared with the corresponding prior-year period. The increase in depreciation and amortization reflected increased capital spending on store remodels, enhancing our digital sites, and other various technologies.

## Interest Expense, Net

	Thirteen weeks ended April May 30, 2, 2016 2015 (\$ in millions)	
Interest expense	\$ 3	\$ 3
Interest income	(3)	(2)
Interest expense, net	\$ —	\$ 1

Net interest expense decreased by \$1 million for the thirteen weeks ended April 30, 2016 as compared with the corresponding prior-year period, reflecting increased income due to a combination of higher cash balances and slightly higher average interest rates.

## Income Taxes

For the thirteen weeks ended April 30, 2016, the Company recorded an income tax provision of \$107 million, which represented an effective tax rate of 36.0 percent, compared to the prior-year income tax provision of \$106 million, which represented an effective tax rate of 36.5 percent. The Company's interim provision for income taxes is measured using an annual effective tax rate, adjusted for discrete items that occur within the periods presented.

The Company regularly assesses the adequacy of the Company's provisions for income tax contingencies in accordance with the applicable authoritative guidance on accounting for income taxes. As a result, the Company may adjust the reserves for unrecognized tax benefits considering new facts and developments, such as changes to interpretations of relevant tax law, assessments from taxing authorities, settlements with taxing authorities, and lapses of statutes of limitation. The changes in the tax reserves for the thirteen weeks ended April 30, 2016 and May 2, 2015 were not significant.

The effective tax rate for the thirteen weeks ended April 30, 2016 decreased as compared with the corresponding prior-year period, due primarily to a higher proportion of income earned in lower tax jurisdictions.

The Company currently expects its full-year tax rate to be approximately 36.1 percent, excluding the effect of any nonrecurring items that may occur and will depend primarily on the level and mix of income earned in the United States as compared with its international operations.

#### Net Income

For the thirteen weeks ended April 30, 2016, net income increased by \$7 million, or 3.8 percent as compared with the corresponding prior-year period. Diluted earnings per share increased by 7.8 percent to \$1.39 per share.



## Segment Information

The Company has determined that its reportable segments are those that are based on its method of internal reporting. The Company has two reportable segments, Athletic Stores and Direct-to-Customers. The Company evaluates performance based on several factors, of which the primary financial measure is division results. Division profit reflects income before income taxes, corporate expense, non-operating income, and net interest expense. The following table summarizes results by segment:

	Thirteen weeks ended April 30,      May 2, 2016      2015 (\$ in millions)	
Sales		
Athletic Stores	\$ 1,735	\$ 1,681
Direct-to-Customers	252	235
	\$ 1,987	\$ 1,916
Operating Results		
Athletic Stores	\$ 277	\$ 267
Direct-to-Customers	38	40
Division profit	315	307
Less: Corporate expense	19	17
Operating profit	296	290
Other income (1)	2	1
Earnings before interest expense and income taxes	298	291
Interest expense, net	—	1
Income before income taxes	\$ 298	\$ 290

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

## Athletic Stores

	Thirteen weeks ended	
	April 30, 2016	May 2, 2015
	(\$ in millions)	
Sales	\$ 1,735	\$ 1,681
\$ Change	\$ 54	\$
% Change	3.2	%
Division profit	\$ 277	\$ 267
Division profit margin	16.0	% 15.9 %

Excluding the effect of foreign currency fluctuations, Athletic Stores segment sales increased by 3.4 percent for the thirteen weeks ended April 30, 2016 as compared with the corresponding prior-year period. Comparable-store sales increased by 2.2 percent for the thirteen weeks ended April 30, 2016.

Our comparable-store sales growth was led by our international divisions and was largely driven by the performance of Foot Locker Europe and Foot Locker Canada. The footwear sales growth for Foot Locker Europe was driven by lifestyle running and classic court styles. Children's footwear sales also performed well. Foot Locker Canada experienced strong footwear sales largely driven by men's basketball styles, which benefited from the excitement and elevated product offerings surrounding the NBA All-Star Game held in Toronto, Ontario.

These increases were partially offset by comparable-store declines for Runners Point and Sidestep as they continued to face assortment and traffic challenges. Our focus for these banners is to improve and better diversify our product offerings along with providing a more elevated in-store experience. Management believes that these initiatives, along with marketing campaigns targeted to improve traffic to the stores, will position the banners for future growth.

Domestically, all formats generated comparable-store sales gains for the quarter, with the exception of Footaction, which generated a negative result for the quarter. Champs Sports led the overall domestic comparable-store sales increase, which was driven by footwear. Champs Sports benefited from strong sales from lifestyle running and casual styles. Lifestyle running and classic court styles were the primary drivers of footwear sales across the domestic banners, both in men's and women's footwear. This was partially offset by declines in men's basketball, particularly certain marquee player shoes. The decline in sales of basketball styles was the primary factor for Footaction's comparable-store decrease.

While Lady Foot Locker/SIX:02's overall sales decreased during the quarter, the combined banners produced a positive comparable-store sales result. The overall sales decline resulted from the closure of 38 Lady Foot Locker stores partially offset by the opening of 11 SIX:02 stores. The comparable-store gain was primarily attributed to footwear sales growth, as women's lifestyle, running, and court styles performed well. The gain in footwear was partially offset by a decline in sales of branded apparel. We are continuing to work with our vendors to refine our assortment of women's apparel to include more athletically-inspired lifestyle assortments.

Athletic Stores division profit increased 3.7 percent for the thirteen weeks ended April 30, 2016, as compared with the corresponding prior-year period. Division profit, as a percentage of sales increased to 16.0 percent for the thirteen weeks ended April 30, 2016 as compared with 15.9 percent for the corresponding prior-year period. The division profit margin as of April 30, 2016 reflected an improved merchandise margin rate driven primarily by a lower markdown rate.

#### Direct-to-Customers

	Thirteen weeks ended April 30,            May 2, 2016        2015 (\$ in millions)	
Sales	\$ 252	\$ 235
\$ Change	\$ 17	
% Change	7.2 %	
Division profit	\$ 38	\$ 40
Division profit margin	15.1 %	17.0 %

Comparable-sales for the Direct-to-Customers segment increased by 7.3 percent for the thirteen weeks ended April 30, 2016. This increase was fueled by the continued growth of ecommerce associated with our store-banner websites, both domestically and internationally. Partially offsetting this increase were declines in our Eastbay and Runners Point businesses, coupled with lower shipping and handling revenue as our customers continue to prefer free shipping offers.

Footwear continues to be our strongest category and was led by Jordan, women's casual styles, and children's footwear, each of which posted strong comparable-sales gains during the quarter. Eastbay's sales decreased for the thirteen weeks ended April 30, 2016 reflecting a decline in sales of performance-related product.

Direct-to-Customers division profit for the thirteen weeks ended April 30, 2016 decreased by \$2 million as compared with the corresponding prior-year period. Division profit, as a percentage of sales, was 15.1 percent for the thirteen weeks ended April 30, 2016, as compared with 17.0 percent for the corresponding prior-year period. This decline was driven by a lower gross margin rate primarily as a result of lower shipping and handling revenue.

## Corporate Expense

	Thirteen weeks ended	
	April	May
	30,	2,
	2016	2015
	(\$ in millions)	
Corporate expense	\$ 19	\$ 17
\$ Change	\$ 2	

Corporate expense consists of unallocated SG&A, as well as depreciation and amortization related to the Company's corporate headquarters, centrally managed departments, unallocated insurance and benefit programs, certain foreign exchange transaction gains and losses, and other items. Depreciation and amortization included in corporate expense was \$3 million for both the thirteen weeks ended April 30, 2016 and May 2, 2015.

The allocation of corporate expense to the operating divisions is adjusted annually based upon an internal study; accordingly, the allocation increased by \$2 million for the thirteen weeks ended April 30, 2016, thus reducing corporate expense. Excluding the corporate allocation change as well as depreciation and amortization, corporate expense, as compared with the corresponding prior-year periods, increased by \$4 million for the thirteen weeks ended April 30, 2016. The \$4 million increase in corporate expense for the thirteen weeks ended April 30, 2016 was primarily related to costs incurred in connection with the relocation of our corporate headquarters within New York City. This relocation was completed during the first quarter.

## Liquidity and Capital Resources

## Liquidity

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

The Company may also from time to time repurchase its common stock or seek to retire or purchase outstanding debt through open market purchases, privately negotiated transactions, or otherwise. Share repurchases and retirement of debt, if any, will depend on prevailing market conditions, liquidity requirements, contractual restrictions, and other factors. The amounts involved may be material. As of April 30, 2016, approximately \$549 million remained available under the Company's current \$1 billion share repurchase program.

As discussed further in the Legal Proceedings note under "Item 1. Financial Statements," during the third quarter of 2015 the Company recorded a pre-tax charge of \$100 million (\$61 million after-tax). In light of the uncertainties involved in this matter, there is no assurance that the ultimate resolution will not differ from the amount currently accrued by the Company. The \$100 million charge has been classified as a long-term liability due to the uncertainty involved with the resolution of this litigation, as the appeals process can be lengthy. The pension plan is currently sufficiently funded to absorb a \$100 million liability and, accordingly, we do not anticipate the need to make any pension contributions in the near term in connection with this matter. The timing and the amount of contributions to the pension plan are dependent on the funded status of the plan and various other factors, such as interest rates and the performance of the plan's assets.

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

## Operating Activities

	Thirteen weeks ended	
	April	May
	30,	2,
	2016	2015
	(\$ in millions)	
Net cash provided by operating activities	\$ 212	\$ 213
\$ Change	\$ (1)	

The amount provided by operating activities reflects net income adjusted for non-cash items and working capital changes. Adjustments to net income for non-cash items include depreciation and amortization, share-based compensation expense, and share-based related tax benefits. The decrease from the prior year primarily reflects working capital changes and a \$25 million contribution to the U.S. qualified pension plan made during the first quarter of 2016. No contribution was made in the prior-year period.

## Investing Activities

	Thirteen weeks ended	
	April	May
	30,	2,
	2016	2015
	(\$ in millions)	
Net cash used in investing activities	\$ 65	\$ 60
\$ Change	\$ 5	

Capital expenditures represented a \$5 million increase from the prior year, which reflected a higher number of store projects in progress for the current year, as well as increased spending on corporate technology projects. The Company's full-year forecast for capital expenditures is \$292 million, which includes \$216 million related to the remodeling or relocation of existing stores and approximately 100 new store openings, as well as \$76 million for the development of information systems, websites, infrastructure, and our corporate headquarters relocation within New York City.

## Financing Activities

	Thirteen weeks ended	
	April	May
	30,	2,
	2016	2015
	(\$ in millions)	
Net cash used in financing activities	\$ 112	\$ 127
\$ Change	\$ (15)	

During the thirteen weeks ended April 30, 2016, the Company repurchased 1,371,174 shares of its common stock for \$88 million, as compared with 2,300,000 shares repurchased for \$129 million in the corresponding prior-year period. The Company declared and paid dividends during the first quarter of 2016 and 2015 of \$37 million and \$35 million, respectively. This represents quarterly rates of \$0.275 and \$0.25 per share for 2016 and 2015, respectively. Additionally, the Company received proceeds from the issuance of common stock in connection with employee stock programs of \$7 million and \$23 million for the thirteen weeks ended April 30, 2016 and May 2, 2015, respectively. In connection with stock option exercises and share-based compensation programs, the Company recorded excess tax benefits of \$6 million and \$14 million as a financing activity for the thirteen weeks ended April 30, 2016 and May 2, 2015, respectively. The decreased excess tax benefit primarily reflected a lower number of stock option exercises during the first quarter of 2016 as compared with the corresponding prior-year period.



## Critical Accounting Policies and Estimates

There have been no significant changes to the Company's critical accounting policies and estimates from the information provided in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in the Annual Report on Form 10-K for the fiscal year ended January 30, 2016.

## Recent Accounting Pronouncements

Descriptions of the recently issued accounting principles are included Item 1. "Financial Statements" in Note 1, Summary of Significant Accounting Policies, to the Condensed Consolidated Financial Statements.

## Disclosure Regarding Forward-Looking Statements

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

For additional discussion on risks and uncertainties that may affect forward-looking statements, see "Risk Factors" disclosed in the 2015 Annual Report on Form 10-K. Any changes in such assumptions or factors could produce significantly different results. The Company undertakes no obligation to update forward-looking statements, whether as a result of new information, future events, or otherwise.



#### Item 4. Controls and Procedures

The Company's management performed an evaluation under the supervision and with the participation of the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), and completed an evaluation as of April 30, 2016 of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based on that evaluation, the Company's CEO and CFO concluded that the Company's disclosure controls and procedures were effective to ensure that information relating to the Company that is required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC rules and forms, and is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

During the quarter ended April 30, 2016, there were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) of the Exchange Act) that materially affected or are reasonably likely to affect the Company's internal control over financial reporting.

## PART II - OTHER INFORMATION

#### Item 1. Legal Proceedings

Information regarding the Company's legal proceedings is contained in the Legal Proceedings note under Item 1. "Financial Statements."

#### Item 1A. Risk Factors

There were no material changes to the risk factors disclosed in the 2015 Annual Report on Form 10-K.

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

The following table provides information with respect to shares of the Company's common stock that the Company repurchased during the thirteen weeks ended April 30, 2016:

Date Purchased	Total Number of Shares Purchased (1)	Average Price Paid Per Share (1)	Total	Approximate
			Number of Shares Purchased as Part of Publicly Announced Program (2)	Dollar Value of Shares that may yet be Purchased Under the Program (2)
Jan. 31, 2016 - Feb. 27, 2016	578,831	\$ 65.53	576,674	\$ 599,067,681
Feb. 28, 2016 - Mar. 2, 2016	682,336	63.81	600,000	560,891,566
Mar. 3, 2016 - Apr. 30, 2016	194,500	61.08	194,500	549,011,610
	1,455,667	64.13	1,371,174	

- (1) These columns also reflect shares acquired in satisfaction of the tax withholding obligations of holders of restricted stock awards and units which vested during the quarter, as well as shares repurchased pursuant to Rule 10b5-1 under the Securities Exchange Act of 1934. The calculation of the average price paid per share includes all fees, commissions, and other costs associated with the repurchase of such shares.
- (2) On February 17, 2015, the Board of Directors approved a 3-year, \$1 billion share repurchase program extending through January 2018.

#### Item 6. Exhibits

- (a) Exhibits  
The exhibits that are in this report immediately follow the index.

SIGNATURE

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

Date: June 8, 2016 FOOT LOCKER, INC.

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

FOOT LOCKER, INC.

INDEX OF EXHIBITS

Exhibit No.	Description
10.1†	Form of Restricted Stock Unit Award Agreement for RSU portion of long-term incentive compensation awards (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K dated March 23, 2016 filed on March 29, 2016).
10.2†	Form of Restricted Stock Unit Award Agreement for long-term incentive RSU awards (incorporated herein by reference to Exhibit 10.2 to the Current Report on Form 8-K dated March 23, 2016 filed on March 29, 2016).
10.3†	Long-Term Incentive Compensation Plan, as Amended and Restated (incorporated herein by reference to Exhibit 10.3 to the Current Report on Form 8-K dated March 23, 2016 filed on March 29, 2016).
10.4	Credit Agreement, dated as of May 19, 2016, among Foot Locker, Inc., a New York corporation, the guarantors party thereto, the lenders party thereto and Wells Fargo, National Association, as agent, letter of credit issuer and swing line lender (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K dated May 19, 2016 filed on May 19, 2016).
12*	Computation of Ratio of Earnings to Fixed Charges.
15*	Accountants' Acknowledgement.
31.1*	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32**	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99*	Report of Independent Registered Public Accounting Firm.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase.
101.LAB*	XBRL Taxonomy Extension Label Linkbase.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase.
†	Management contract or compensatory plan or arrangement.
*	Filed herewith.
**	Furnished herewith.

