

FOOT LOCKER INC
Form 10-Q
December 11, 2013

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: November 2, 2013

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

For the transition period from _____ to _____

Commission File Number: 1-10299

FOOT LOCKER, INC.

(Exact Name of Registrant as Specified in its Charter)

New York

(State or Other Jurisdiction of Incorporation or Organization)

13-3513936

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

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

(Address of Principal Executive Offices, Zip Code)

(212-720-3700)

(Registrant's Telephone Number, Including Area Code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

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

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

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

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

FOOT LOCKER, INC.

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PART I - FINANCIAL INFORMATION**Item 1. Financial Statements****FOOT LOCKER, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(in millions, except shares)

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

See Accompanying Notes to Condensed Consolidated Financial Statements.

* The balance sheet at February 2, 2013 has been derived from the previously reported audited financial statements at that date, but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and

footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended February 2, 2013.

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

(Unaudited)

(in millions, except per share amounts)

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

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

(Unaudited)

(in millions)

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

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

(Unaudited)

(in millions)

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

See Accompanying Notes to Condensed Consolidated Financial Statements.

FOOT LOCKER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated financial statements contained in this report are unaudited. In the opinion of management, the condensed consolidated financial statements include all adjustments, which are of a normal recurring nature, necessary for a fair presentation of the results for the interim periods of the fiscal year ending February 1, 2014 and of the fiscal year ended February 2, 2013. Certain items included in these statements are based on management's estimates. Actual results may differ from those estimates. The results of operations for any interim period are not necessarily indicative of the results expected for the year. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Notes to Consolidated Financial Statements contained in the Company's Form 10-K for the year ended February 2, 2013, as filed with the Securities and Exchange Commission (the "SEC") on April 1, 2013.

Recent Accounting Pronouncements

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

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

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

2. Acquisition

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

accelerated e-commerce growth in Europe.

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

FOOT LOCKER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. Acquisition (continued)

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

(in millions)	Allocation as Revised
Assets acquired:	
Cash and cash equivalents	\$ 6
Inventory	41
Other current assets	11
Property and equipment	24
Other long-term assets	1
Tradenames	29