

FOOT LOCKER INC
Form 10-Q
September 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: August 3, 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

13-3513936

(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)

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

(Address of Principal Executive Offices, Zip Code)

(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 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 August 30, 2013: 148,495,431

FOOT LOCKER, INC.

TABLE OF CONTENTS

	Page
Part I. Financial Information	
Item 1. Financial Statements	
Condensed Consolidated Balance Sheets	3
Condensed Consolidated Statements of Operations	4
Condensed Consolidated Statements of Comprehensive Income	5
Condensed Consolidated Statements of Cash Flows	6
Notes to Condensed Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	19
Item 4. Controls and Procedures	26
Part II. Other Information	
Item 1. Legal Proceedings	27
Item 1A. Risk Factors	28
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	28
Item 6. Exhibits	28
Signature	29
Index of Exhibits	30

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

(in millions, except shares)

	August 3, 2013 (Unaudited)	July 28, 2012 (Unaudited)	February 2, 2013 *
ASSETS			
Current assets			
Cash and cash equivalents	\$ 789	\$ 770	\$ 880
Short-term investments	47	50	48
Merchandise inventories	1,306	1,231	1,167
Other current assets	243	199	268
	2,385	2,250	2,363
Property and equipment, net	552	447	490
Deferred taxes	265	284	257
Goodwill	194	143	145
Other intangibles and other assets	115	110	112
	\$ 3,511	\$ 3,234	\$ 3,367
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable	\$ 418	\$ 391	\$ 298
Accrued expenses and other current liabilities	309	278	338
Current portion of capital lease obligations	3	—	—
	730	669	636
Long-term debt and obligations under capital leases	138	133	133
Other liabilities	217	253	221
	1,085	1,055	990
Shareholders' equity			
Common stock and paid-in capital: 168,480,940, 165,819,340 and 166,909,151 shares, respectively	895	819	856

Edgar Filing: FOOT LOCKER INC - Form 10-Q

Retained earnings	2,220	1,920	2,076
Accumulated other comprehensive loss	(192)	(241)	(171)
Less: Treasury stock at cost: 20,005,809, 14,959,322 and 16,839,222 shares, respectively	(497)	(319)	(384)
Total shareholders' equity	2,426	2,179	2,377
	\$ 3,511	\$ 3,234	\$ 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		Twenty-six weeks ended	
	August	July	August	July
	3,	28,	3,	28,
	2013	2012	2013	2012
Sales	\$1,454	\$1,367	\$3,092	\$2,945
Cost of sales	1,001	939	2,078	1,980
Selling, general and administrative expenses	314	306	629	612
Depreciation and amortization	31	29	62	58
Other charges	2	—	2	—
Interest expense, net	1	1	2	2
Other income	(1)	(1)	(3)	(1)
	1,348	1,274	2,770	2,651
Income before income taxes	106	93	322	294
Income tax expense	40	34	118	107
Net income	\$66	\$59	\$204	\$187
Basic earnings per share	\$0.44	\$0.39	\$1.36	\$1.23
Weighted-average common shares outstanding	149.5	151.4	149.9	151.6
Diluted earnings per share	\$0.44	\$0.39	\$1.34	\$1.21
Weighted-average common shares assuming dilution	151.4	153.9	152.1	154.1

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

(Unaudited)

(in millions)

	Thirteen weeks ended August 3, 2013		Twenty-six weeks ended August 3, 2012	
Net income	\$66	\$59	\$204	\$187
Other comprehensive income (loss), net of income tax				
Foreign currency translation adjustment:				
Translation adjustment arising during the period, net of income tax	(6)	(49)	(27)	(42)
Cash flow hedges:				
Change in fair value of derivatives, net of income tax	1	(1)	—	(1)
Available for sale securities:				
Unrealized gain/(loss)	(1)	1	—	1
Pension and postretirement adjustments:				
Amortization of net actuarial gain/loss included in net periodic benefit costs, net of income tax expense of \$2, \$1, \$3, and \$2 million, respectively	2	2	4	4
Comprehensive income	\$62	\$12	\$181	\$149

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

(Unaudited)

(in millions)

	Twenty-six weeks ended August 3, 2013	July 28 2012
From Operating Activities:		
Net income	\$ 204	\$ 187
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	62	58
Share-based compensation expense	13	10
Qualified pension plan contributions	(2)	—
Excess tax benefits on share-based compensation	(7)	(6)
Change in assets and liabilities:		
Merchandise inventories	(109)	(177)
Accounts payable	100	155
Other accruals	(28)	(30)
Other, net	7	(36)
Net cash provided by operating activities	240	161
From Investing Activities:		
Lease termination gains	2	—
	23	7

Edgar Filing: FOOT LOCKER INC - Form 10-Q

Sales and maturities of short-term investments				
Purchases of short-term investments	(23)	(57)
Capital expenditures	(107)	(87)
Purchase of business, net of cash acquired	(84)	—	
Net cash used in investing activities	(189)	(137)
From Financing Activities:				
Purchase of treasury shares	(100)	(65)
Dividends paid	(60)	(55)
Issuance of common stock	15		20	
Treasury stock issued under employee stock purchase plan	3		5	
Excess tax benefits on share-based compensation	7		7	
Reduction in long-term debt	—		(2)
Net cash used in financing activities	(135)	(90)
Effect of exchange rate fluctuations on Cash and Cash Equivalents	(7)	(15)
Net change in Cash and Cash Equivalents	(91)	(81)
Cash and Cash Equivalents at beginning of year	880		851	
Cash and Cash Equivalents at end of interim period	\$	789	\$	770
Cash paid during the period:				
Interest	\$	5	\$	5
Income taxes	\$	99	\$	137

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 beginning on July 7, 2013, the Company completed its acquisition of 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 value of the net assets acquired. Runners Point Group operates 194 stores in Germany, Austria, and the Netherlands. Additionally, there are 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 the preliminary 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 allocation of the purchase price shown in the table below is preliminary and subject to change based on the finalization of our detailed valuations, including the valuations of trademarks, tradenames, customer lists, and other intangibles.

	(in millions)
Cash and cash equivalents	\$ 3
Inventory	40
Other current assets	10
Property and equipment	20
Other long-term assets	9
Accounts payable and other accruals	(34)
Obligations under capital leases	(9)
Other long-term liabilities	(1)
Goodwill ⁽¹⁾	49
Total purchase price	\$ 87

(1) As of August 3, 2013, the U.S. dollar value of goodwill increased to \$50 million.

The Company is assessing the tax deductibility of the goodwill related to the acquisition.

3. Segment Information

The Company has determined that its reportable segments are those that are based on its method of internal reporting. As of August 3, 2013, the Company has two reportable segments, Athletic Stores and Direct-to-Customers. Sales and division results for the Company's reportable segments for the thirteen weeks and twenty-six weeks ended August 3, 2013 and July 28, 2012 are presented below. Division profit reflects income before income taxes, corporate expense, net interest expense, and net non-operating income.

As discussed in Note 2, *Acquisition*, the Company acquired Runners Point Group during the second quarter of 2013. Sales and division results for the Runners Point Group stores, including Runners Point, Sidestep and Run², are included in the Athletic Stores segment since the date of acquisition. Sales and division results for Tredex, a direct-to-customer subsidiary of Runners Point Group, are included in the Direct-to-Customers segment since the date of acquisition.

Sales (in millions)	Thirteen weeks ended		Twenty-six weeks ended	
	August 3, 2013	July 28, 2012	August 3, 2013	July 28, 2012
Athletic Stores	\$ 1,313	\$ 1,248	\$ 2,784	\$ 2,685
Direct-to-Customers	141	119	308	260
Total sales	\$ 1,454	\$ 1,367	\$ 3,092	\$ 2,945

FOOT LOCKER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. Segment Information - (continued)