

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 *
ASSETS			
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
LIABILITIES AND SHAREHOLDERS' EQUITY			
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
Assets									
Available-for-sale securities	\$ —	\$ 6	\$ —	\$ —	\$ 6	\$ —	\$ —	\$ 6	\$ —
Foreign exchange forward contracts	—	2	—	—	—	—	—	3	—
Total Assets	\$ —	\$ 8	\$ —	\$ —	\$ 6	\$ —	\$ —	\$ 9	\$ —
Liabilities									
Foreign exchange forward contracts	—	—	—	—	5	—	—	—	—
Total Liabilities	\$ —	\$ —	\$ —	\$ —	\$ 5	\$ —	\$ —	\$ —	\$ —

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 May
30, 2,