FOOT LOCKER INC
Form 10-K
March 24, 2016

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

FORM 10-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended January 30, 2016

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File No. 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.)*

112 West 34th Street, New York, New York	10120
(Address of principal executive offices)	*(Zip Code)*

Registrant s telephone number, including area code: (212) 720-3700

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.Yes o No x

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 x No o

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Website, 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 x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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 x Accelerated filer o Non-accelerated filer o Smaller reporting company o

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

The number of shares of the Registrant s Common Stock, par value $0.01 per share, outstanding as of March 21, 2016:	136,094,471
The aggregate market value of voting stock held by non-affiliates of the Registrant computed by reference to the closing price as of the last business day of the Registrant s most recently completed second fiscal quarter, August 1, 2015, was approximately:	$7,523,772,438*

* For purposes of this calculation only (a) all directors plus three executive officers and owners of five percent or more of the Registrant are deemed to be affiliates of the Registrant and (b) shares deemed to be held by such persons include only outstanding shares of the Registrant s voting stock with respect to which such persons had, on such date, voting or investment power.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s definitive Proxy Statement (the Proxy Statement) to be filed in connection with the Annual Meeting of Shareholders to be held on May 18, 2016: Parts III and IV.

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PART I

Item 1. Business

General

Foot Locker, Inc., incorporated under the laws of the State of New York in 1989, is a leading global retailer of athletically inspired shoes and apparel, operating 3,383 primarily mall-based stores in the United States, Canada, Europe, Australia, and New Zealand as of January 30, 2016. Foot Locker, Inc. and its subsidiaries hereafter are referred to as the Registrant, Company, we, our, or us. Information regarding the business is contained under Business Overview section in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

The Company maintains a website on the Internet at *www.footlocker-inc.com*. The Company s filings with the U.S. Securities and Exchange Commission (the SEC), including its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports are available free of charge through this website as soon as reasonably practicable after they are filed with or furnished to the SEC by clicking on the SEC Filings link. The Corporate Governance section of the Company s corporate website contains the Company s Corporate Governance Guidelines, Committee Charters, and the Company s Code of Business Conduct for directors, officers and employees, including the Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer. Copies of these documents may also be obtained free of charge upon written request to the Company s Corporate Secretary at 112 West 34th Street, New York, N.Y. 10120. Effective May 1, 2016 the address to use will be 330 West 34th Street, New York, N.Y. 10001. The Company intends to promptly disclose amendments to the Code of Business Conduct and waivers of the Code for directors and executive officers on the Corporate Governance section of the Company s corporate website.

Information Regarding Business Segments and Geographic Areas

The financial information concerning business segments, divisions, and geographic areas is contained under the Business Overview and Segment Information sections in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations. Information regarding sales, operating results, and identifiable assets of the Company by business segment and by geographic area is contained under the *Segment Information* note in Item 8. Consolidated Financial Statements and Supplementary Data.

The service marks, trade names, and trademarks appearing in this report (except for Nike, Inc.) are owned by Foot Locker, Inc. or its subsidiaries.

Employees

The Company and its consolidated subsidiaries had 14,944 full-time and 32,081 part-time employees at January 30, 2016. The Company considers employee relations to be satisfactory.

Competition

Financial information concerning competition is contained under the Business Risk section in the *Financial Instruments and Risk Management* note in Item 8. Consolidated Financial Statements and Supplementary Data.

Merchandise Purchases

Financial information concerning merchandise purchases is contained under the Liquidity section in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and under the Business Risk section in the *Financial Instruments and Risk Management* note in Item 8. Consolidated Financial Statements and Supplementary Data.

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Item 1A. Risk Factors

The statements contained in this Annual Report on Form 10-K (Annual Report) that are not historical facts, including, but not limited to, statements regarding our expected financial position, business and financing plans found in Item 1. Business and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

Please also see Disclosure Regarding Forward-Looking Statements. Our actual results may differ materially due to the risks and uncertainties discussed in this Annual Report, including those discussed below. Additional risks and uncertainties that we do not presently know about or that we currently consider to be insignificant may also affect our business operations and financial performance.

Our inability to implement our strategic long range plan may adversely affect our future results.

Our ability to successfully implement and execute our long-range plan is dependent on many factors. Our strategies may require significant capital investment and management attention, which may result in the diversion of these resources from our core business and other business issues and opportunities. Additionally, any new initiative is subject to certain risks including customer acceptance of our products and renovated store designs, competition, product differentiation, and the ability to attract and retain qualified personnel. If we cannot successfully execute our strategic growth initiatives or if the long-range plan does not adequately address the challenges or opportunities we face, our financial condition and results of operations may be adversely affected. Additionally, failure to meet market expectations, particularly with respect to sales, operating margins, and earnings per share, would likely result in volatility in the market value of our stock.

The retail athletic footwear and apparel business is highly competitive.

Our athletic footwear and apparel operations compete primarily with athletic footwear specialty stores, sporting goods stores, department stores, discount stores, traditional shoe stores, mass merchandisers, and Internet retailers, many of which are units of national or regional chains that have significant financial and marketing resources. The principal competitive factors in our markets are selection of merchandise, reputation, store location, quality, advertising, price, and customer service. Our success also depends on our ability to differentiate ourselves from our competitors with respect to a quality merchandise assortment and superior customer service. We cannot assure that we will continue to be able to compete successfully against existing or future competitors. Our expansion into markets served by our competitors, and entry of new competitors or expansion of existing competitors into our markets, could have a material adverse effect on our business, financial condition, and results of operations.

Although we sell merchandise via the Internet, a significant shift in customer buying patterns to purchasing athletic footwear, athletic apparel, and sporting goods via the Internet could have a material adverse effect on our business results. In addition, all of our significant suppliers operate retail stores and distribute products directly through the Internet and others may follow. Should this continue to occur, and if our customers decide to purchase directly from our suppliers, it could have a material adverse effect on our business, financial condition, and results of operations.

The industry in which we operate is dependent upon fashion trends, customer preferences, product innovations, and other fashion-related factors.

The athletic footwear and apparel industry is subject to changing fashion trends and customer preferences. In addition, retailers in the athletic industry rely on their suppliers to maintain innovation in the products they develop. We cannot guarantee that our merchandise selection will accurately reflect customer preferences when it is offered for sale or that we will be able to identify and respond quickly to fashion changes, particularly given the long lead times for ordering much of our merchandise from suppliers. A substantial portion of our highest margin sales are to young males (ages 12 25), many of whom we believe purchase athletic footwear and athletic apparel as a fashion statement and are frequent purchasers. Our failure to anticipate, identify or react appropriately in a timely manner to changes in fashion trends that would make athletic footwear or athletic apparel less attractive to these customers could have a material adverse effect on our business, financial condition, and results of operations.

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If we do not successfully manage our inventory levels, our operating results will be adversely affected.

We must maintain sufficient inventory levels to operate our business successfully. However, we also must guard against accumulating excess inventory. For example, we order most of our athletic footwear four to six months prior to delivery to our stores. If we fail to anticipate accurately either the market for the merchandise in our stores or our customers purchasing habits, we may be forced to rely on markdowns or promotional sales to dispose of excess or slow moving inventory, which could have a material adverse effect on our business, financial condition, and results of operations.

A change in the relationship with any of our key suppliers or the unavailability of our key products at competitive prices could affect our financial health.

Our business is dependent to a significant degree upon our ability to obtain exclusive product and the ability to purchase brand-name merchandise at competitive prices from a limited number of suppliers. In addition, our suppliers provide volume discounts, cooperative advertising, and markdown allowances, as well as the ability to negotiate returns of excess or unneeded merchandise. We cannot be certain that such terms with our suppliers will continue in the future.

The Company purchased approximately 90 percent of its merchandise in 2015 from its top five suppliers and expects to continue to obtain a significant percentage of its athletic product from these suppliers in future periods. Approximately 72 percent of all merchandise purchased in 2015 was purchased from one supplier Nike, Inc. (Nike). Each of our operating divisions is highly dependent on Nike; they individually purchased 55 to 82 percent of their merchandise from Nike. Merchandise that is high profile and in high demand is allocated by our suppliers based upon their internal criteria. Although we have generally been able to purchase sufficient quantities of this merchandise in the past, we cannot be certain that our suppliers will continue to allocate sufficient amounts of such merchandise to us in the future. Our inability to obtain merchandise in a timely manner from major suppliers (particularly Nike) as a result of business decisions by our suppliers or any disruption in the supply chain could have a material adverse effect on our business, financial condition, and results of operations. Because of our strong dependence on Nike, any adverse development in Nike s reputation, financial condition or results of operations or the inability of Nike to develop and manufacture products that appeal to our target customers could also have an adverse effect on our business, financial condition, and results of operations. We cannot be certain that we will be able to acquire merchandise at competitive prices or on competitive terms in the future. These risks could have a material adverse effect on our business, financial condition, and results of operations.

We depend on mall traffic and our ability to secure suitable store locations.

Our stores are located primarily in enclosed regional and neighborhood malls. Our sales are dependent, in part, on the volume of mall traffic. Mall traffic may be adversely affected by, among other factors, economic downturns, the closing of anchor department stores and/or specialty stores, and a decline in the popularity of mall shopping among our target customers. Further, any terrorist act, natural disaster, public health or safety concern that decreases the level of mall traffic, or that affects our ability to open and operate stores in affected areas, could have a material adverse effect on our business.

To take advantage of customer traffic and the shopping preferences of our customers, we need to maintain or acquire stores in desirable locations such as in regional and neighborhood malls anchored by major department stores. We cannot be certain that desirable mall locations will continue to be available at favorable rates. Some traditional enclosed malls are experiencing significantly lower levels of customer traffic, driven by economic conditions as well as the closure of certain mall anchor tenants.

Several large landlords dominate the ownership of prime malls, particularly in the United States, Canada, and Australia, and because of our dependence upon these landlords for a substantial number of our locations, any significant erosion of their financial condition or our relationships with these landlords would negatively affect our ability to obtain and retain store locations. Additionally, further landlord consolidation may negatively affect our ability to negotiate favorable lease terms.

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We may experience fluctuations in and cyclicality of our comparable-store sales results.

Our comparable-store sales have fluctuated significantly in the past, on both an annual and a quarterly basis, and we expect them to continue to fluctuate in the future. A variety of factors affect our comparable-store sales results, including, among others, fashion trends, product innovation, the highly competitive retail sales environment, economic conditions, timing of promotional events, changes in our merchandise mix, calendar shifts of holiday periods, supply chain disruptions, and weather conditions. Many of our products represent discretionary purchases. Accordingly, customer demand for these products could decline in a recession or if our customers develop other priorities for their discretionary spending. These risks could have a material adverse effect on our business, financial condition, and results of operations.

Economic or political conditions in other countries, including fluctuations in foreign currency exchange rates and tax rates may adversely affect our operations.

A significant portion of our sales and operating income for 2015 was attributable to our operations in Europe, Canada, Australia, and New Zealand. As a result, our business is subject to the risks associated with doing business outside of the United States such as local customer product preferences, political unrest, disruptions or delays in shipments, changes in economic conditions in countries in which we operate, foreign currency fluctuations, real estate costs, and labor and employment practices in non-U.S. jurisdictions that may differ significantly from those that prevail in the United States. In addition, because we and our suppliers have a substantial amount of our products manufactured in foreign countries, our ability to obtain sufficient quantities of merchandise on favorable terms may be affected by governmental regulations, trade restrictions, and economic, labor, and other conditions in the countries from which our suppliers obtain their product.

Fluctuations in the value of the euro may affect the value of our European earnings when translated into U.S. dollars. Similarly our earnings in Canada, Australia, and New Zealand may be affected by the value of currencies when translated into U.S. dollars. Our operating results may be adversely affected by significant changes in these foreign currencies relative to the U.S. dollar. For the most part, our international subsidiaries transact in their functional currency, other than in the U.K., whose inventory purchases are denominated in euro, which could result in foreign currency transaction gains or losses.

Our products are subject to import and excise duties and/or sales or value-added taxes in many jurisdictions. Fluctuations in tax rates and duties and changes in tax legislation or regulation could have a material adverse effect on our results of operations and financial condition.

Macroeconomic developments may adversely affect our business.

Our performance is subject to global economic conditions and the related impact on consumer spending levels. Continued uncertainty about global economic conditions poses a risk as consumers and businesses postpone spending in response to tighter credit, unemployment, negative financial news, and/or declines in income or asset values, which could have a material negative effect on demand for our products.

As a retailer that is dependent upon consumer discretionary spending, our results of operations are sensitive to changes in macroeconomic conditions. Our customers may have less money for discretionary purchases as a result of job losses, foreclosures, bankruptcies, increased fuel and energy costs, higher interest rates, higher taxes, reduced access to credit, and lower home values. There is also a risk that if negative economic conditions persist for a long period of time or worsen, consumers may make long-lasting reductions to their discretionary purchasing behavior. These and other economic factors could adversely affect demand for our products, which could adversely affect our financial condition and operating results.

Instability in the financial markets may adversely affect our business.

Any instability in the global financial markets could result in diminished credit availability. Although we currently have a revolving credit agreement in place until January 27, 2017, and other than amounts used for standby letters of credit, we do not have any borrowings under it, tightening of credit markets could make it more difficult for us to access funds, refinance our existing indebtedness, enter into agreements for new indebtedness or obtain funding through the issuance of the Company s securities.

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We rely on a few key suppliers for a majority of our merchandise purchases (including a significant portion from one key supplier). The inability of key suppliers to access liquidity, or the insolvency of key suppliers, could lead to their failure to deliver merchandise to us. Our inability to obtain merchandise in a timely manner from major suppliers could have a material adverse effect on our business, financial condition, and results of operations.

Material changes in the market value of the securities we hold may adversely affect our results of operations and financial condition.

At January 30, 2016, our cash and cash equivalents totaled $1,021 million. The majority of our investments were short-term deposits in highly-rated banking institutions. As of January 30, 2016, $608 million of our cash and cash equivalents were held in foreign jurisdictions. We regularly monitor our counterparty credit risk and mitigate our exposure by making short-term investments only in highly-rated institutions and by limiting the amount we invest in any one institution. We continually monitor the creditworthiness of our counterparties. At January 30, 2016, almost all of the investments were in institutions rated A or better from a major credit rating agency. Despite those ratings, it is possible that the value or liquidity of our investments may decline due to any number of factors, including general market conditions and bank-specific credit issues.

Our U.S. pension plan trust holds assets totaling $544 million at January 30, 2016. The fair values of these assets held in the trust are compared to the plan s projected benefit obligation to determine the pension funding liability. We attempt to mitigate funding risk through asset diversification, and we regularly monitor investment risk of our portfolio through quarterly investment portfolio reviews and periodic asset and liability studies. Despite these measures, it is possible that the value of our portfolio may decline in the future due to any number of factors, including general market conditions and credit issues. Such declines could have an impact on the funded status of our pension plan and future funding requirements.

If our long-lived assets, goodwill or other intangible assets become impaired, we may need to record significant non-cash impairment charges.

We review our long-lived assets, goodwill and other intangible assets when events indicate that the carrying value of such assets may be impaired. Goodwill and other indefinite lived intangible assets are reviewed for impairment if impairment indicators arise and, at a minimum, annually. As of January 30, 2016, we had $156 million of goodwill; this asset is not amortized but is subject to an impairment test, which consists of either a qualitative assessment on a reporting unit level, or a two-step impairment test, if necessary. The determination of impairment charges is significantly affected by estimates of future operating cash flows and estimates of fair value. Our estimates of future operating cash flows are identified from our strategic long-range plans, which are based upon our experience, knowledge, and expectations; however, these estimates can be affected by factors such as our future operating results, future store profitability, and future economic conditions, all of which can be difficult to predict accurately. Any significant deterioration in macroeconomic conditions could affect the fair value of our long-lived assets, goodwill, and other intangible assets and could result in future impairment charges, which would adversely affect our results of operations.

Our financial results may be adversely affected by tax rates or exposure to additional tax liabilities.

We are a U.S.-based multinational company subject to tax in multiple U.S. and foreign tax jurisdictions. Our provision for income taxes is based on a jurisdictional mix of earnings, statutory rates, and enacted tax rules, including transfer pricing. Significant judgment is required in determining our provision for income taxes and in evaluating our tax positions on a worldwide basis. Our effective tax rate could be adversely affected by a number of factors, including shifts in the mix of pretax results by tax jurisdiction, changes in tax laws or related interpretations in the jurisdictions in which we operate, and tax assessments and related interest and penalties resulting from income tax audits.

A substantial portion of our cash and investments is invested outside of the United States. As we plan to permanently reinvest our foreign earnings outside the United States, in accordance with U.S. GAAP, we have not provided for U.S. federal and state income taxes or foreign withholding taxes that may result from future remittances of undistributed earnings of foreign subsidiaries. Recent proposals to reform U.S. tax rules may result in a reduction or elimination of the deferral of U.S. income tax on our foreign earnings, which could adversely affect our effective tax rate. Any of these changes could have an adverse effect on our results of operations and financial condition.

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The effects of natural disasters, terrorism, acts of war, and public health issues may adversely affect our business.

Natural disasters, including earthquakes, hurricanes, floods, and tornados may affect store and distribution center operations. In addition, acts of terrorism, acts of war, and military action both in the United States and abroad can have a significant effect on economic conditions and may negatively affect our ability to purchase merchandise from suppliers for sale to our customers. Public health issues, such as flu or other pandemics, whether occurring in the United States or abroad, could disrupt our operations and result in a significant part of our workforce being unable to operate or maintain our infrastructure or perform other tasks necessary to conduct our business. Additionally, public health issues may disrupt, or have an adverse effect on, our suppliers operations, our operations, our customers, or customer demand. Our ability to mitigate the adverse impact of these events depends, in part, upon the effectiveness of our disaster preparedness and response planning as well as business continuity planning. However, we cannot be certain that our plans will be adequate or implemented properly in the event of an actual disaster. We may be required to suspend operations in some or all of our locations, which could have a material adverse effect on our business, financial condition, and results of operations. Any significant declines in public safety or uncertainties regarding future economic prospects that affect customer spending habits could have a material adverse effect on customer purchases of our products.

Manufacturer compliance with our social compliance program requirements.

We require our independent manufacturers to comply with our policies and procedures, which cover many areas including labor, health and safety, and environmental standards. We monitor compliance with our policies and procedures using internal resources, as well as third-party monitoring firms. Although we monitor their compliance with these policies and procedures, we do not control the manufacturers or their practices. Any failure of our independent manufacturers to comply with our policies and procedures or local laws in the country of manufacture could disrupt the shipment of merchandise to us, force us to locate alternate manufacturing sources, reduce demand for our merchandise, or damage our reputation.

Complications in our distribution centers and other factors affecting the distribution of merchandise may affect our business.

We operate multiple distribution centers worldwide to support our businesses. In addition to the distribution centers that we operate, we have third-party arrangements to support our operations in the United States, Canada, Australia, and New Zealand. If complications arise with any facility or if any facility is severely damaged or destroyed, our other distribution centers may be unable to support the resulting additional distribution demands. We may be affected by disruptions in the global transportation network such as a port strike, weather conditions, work stoppages or other labor unrest. These factors may adversely affect our ability to deliver inventory on a timely basis. We depend upon third-party carriers for shipment of a significant amount of merchandise. An interruption in service by these carriers for any reason could cause temporary disruptions in our business, a loss of sales and profits, and other material adverse effects.

Our freight cost is affected by changes in fuel prices through surcharges. Increases in fuel prices and surcharges, among other factors, may increase freight costs and thereby increase our cost of sales. We enter into diesel fuel forward and option contracts to mitigate a portion of the risk associated with the variability caused by these surcharges.

We are subject to technology risks including failures, security breaches, and cybersecurity risks which could harm our business, damage our reputation, and increase our costs in an effort to protect against such risks.

Information technology is a critically important part of our business operations. We depend on information systems to process transactions, make operational decisions, manage inventory, operate our websites, purchase, sell and ship goods on a timely basis, and maintain cost-efficient operations. There is a risk that we could experience a business interruption, theft of information, or reputational damage as a result of a cyber-attack, such as an infiltration of a data center or data leakage of confidential information, either internally or at our third-party providers. We may experience operational problems with our information systems as a result of system failures, system implementation issues, viruses, malicious hackers, sabotage, or other causes.

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Our business involves the storage and transmission of customers personal information, including consumer preferences and credit card information. In an effort to enhance the security of our customers credit card information, during 2015 we implemented an encryption and tokenization platform for certain credit card transactions, whereby no credit card data is stored in our internal systems, with plans to expand this platform to the entire Company. We invest in security technology to protect the data stored by the Company, including our data and business processes, against the risk of data security breaches and cyber-attacks. Our data security management program includes enforcement of standard data protection policies such as Payment Card Industry compliance. Additionally, we certify our major technology suppliers and any outsourced services through accepted security certification measures. We maintain and routinely test backup systems and disaster recovery, along with external network security penetration testing by an independent third party as part of our business continuity preparedness. We also maintain an IT Security Incident Response Plan and routinely perform a table-top exercise with key IT and business stakeholders.

While we believe that our security technology and processes follow leading practices in the prevention of security breaches and the mitigation of cybersecurity risks, given the ever-increasing abilities of those intent on breaching cybersecurity measures and given the necessity of our reliance on the security procedures of third-party vendors, the total security effort at any point in time may not be completely effective. Any such security breaches and cyber incidents could adversely affect our business. Failure of our systems, including failures due to cyber-attacks that would prevent the ability of systems to function as intended, could cause transaction errors, loss of customers and sales, and negative consequences to us, our employees, and those with whom we do business. Any security breach involving the misappropriation, loss, or other unauthorized disclosure of confidential information by us could also severely damage our reputation, expose us to the risks of litigation and liability, increase operating costs associated with remediation, and harm our business. While we carry insurance that would mitigate the losses, such insurance may be insufficient to compensate us for potentially significant losses.

Risks associated with digital operations.

Our digital operations are subject to numerous risks, including risks related to the failure of the computer systems that operate our websites and mobile sites and their related support systems, computer viruses, telecommunications failures, denial of service attacks, and similar disruptions. Also, we may require additional capital in the future to sustain or grow our digital commerce. Business risks related to digital commerce include risks associated with the need to keep pace with rapid technological change, Internet cybersecurity risks, risks of system failure or inadequacy, governmental regulation, legal uncertainties with respect to Internet regulatory compliance, and collection of sales or other taxes by additional states or foreign jurisdictions. If any of these risks materializes, it could have a material adverse effect on our business.

The technology enablement of omni-channel in our business is complex and involves the development of a new digital platform and a new order management system in order to enhance the complete customer experience.

We continue to invest in initiatives geared towards delivering a high-quality, coordinated shopping experience online, in-stores, and on mobile, which requires substantial investment in technology, information systems, employees, and management time and resources. Our omni-channel retailing efforts include the integration and implementation of new technology, software and processes to be able to fulfill orders from any point within our system of stores and distribution centers, which is extremely complex and may not meet customer expectations for timely and accurate deliveries. These efforts involve substantial risk, including risk of implementation delays, cost overruns, technology interruptions, supply and distribution delays, and other issues that can affect the successful implementation and operation of our omni-channel initiatives. If our omni-channel initiatives are not successful, or we do not realize the return on our omni-channel investments that we anticipate, our financial performance and future growth could be materially adversely affected.

Our reliance on key management.

Future performance will depend upon our ability to attract, retain, and motivate our executive and senior management team. Our executive and senior management teams have substantial experience and expertise in our business and have made significant contributions to our recent growth and success. Our future performance depends to a significant extent both upon the continued services of our current executive and senior management team, as well as our ability to attract, hire, motivate, and retain additional qualified management in the future.

While we feel that we have adequate succession planning and executive development programs, competition for key executives in the retail industry is intense, and our operations could be adversely affected if we cannot retain and attract qualified executives.

Risks associated with attracting and retaining store and field associates.

Many of the store and field associates are in entry level or part-time positions which, historically, have had high rates of turnover. If we are unable to attract and retain quality associates, our ability to meet our growth goals or to sustain expected levels of profitability may be compromised. Our ability to meet our labor needs while controlling costs is subject to external factors such as unemployment levels, prevailing wage rates, minimum wage legislation, overtime regulations, and changing demographics.

Changes in employment laws or regulation could harm our performance.

Various foreign and domestic labor laws govern our relationship with our employees and affect our operating costs. These laws include minimum wage requirements, overtime pay, paid time off, work scheduling, healthcare reform and the implementation of the Patient Protection and Affordable Care Act, unemployment tax rates, workers compensation rates, works council requirements, and union membership. A number of factors could adversely affect our operating results, including additional government-imposed increases in minimum wages, overtime pay, paid leaves of absence and mandated health benefits, and changing regulations from the National Labor Relations Board or other agencies.

Legislative or regulatory initiatives related to global warming/climate change concerns may negatively affect our business.

There has been an increasing focus and significant debate on global climate change, including increased attention from regulatory agencies and legislative bodies. This increased focus may lead to new initiatives directed at regulating an as-yet unspecified array of environmental matters. Legislative, regulatory, or other efforts in the United States to combat climate change could result in future increases in taxes or in the cost of transportation and utilities, which could decrease our operating profits and could necessitate future additional investments in facilities and equipment. We are unable to predict the potential effects that any such future environmental initiatives may have on our business.

We may be adversely affected by regulatory and litigation developments.

We are exposed to the risk that federal or state legislation may negatively impact our operations. Changes in federal or state wage requirements, employee rights, health care, social welfare or entitlement programs, such as health insurance, paid leave programs, or other changes in workplace regulation could increase our cost of doing business or otherwise adversely affect our operations. Additionally, we are regularly involved in various litigation matters, including class actions and patent infringement claims, which arise in the ordinary course of our business. Litigation or regulatory developments could adversely affect our business operations and financial performance.

We operate in many different jurisdictions and we could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act and similar worldwide anti-corruption laws.

The U.S. Foreign Corrupt Practices Act (FCPA) and similar worldwide anti-corruption laws, including the U.K. Bribery Act of 2010, which is broader in scope than the FCPA, generally prohibit companies and their intermediaries from making improper payments to non-U.S. officials for the purpose of obtaining or retaining business. Our internal policies mandate compliance with these anti-corruption laws. Despite our training and compliance programs, we cannot be assured that our internal control policies and procedures will always protect us from reckless or criminal acts committed by our employees or agents.

Our continued expansion outside the United States, including in developing countries, could increase the risk of FCPA violations in the future. Violations of these laws, or allegations of such violations, could disrupt our business and result in a material adverse effect on our results of operations or financial condition.

Failure to fully comply with Section 404 of the Sarbanes-Oxley Act of 2002 could negatively affect our business, market confidence in our reported financial information, and the price of our common stock.

We continue to document, test, and monitor our internal controls over financial reporting in order to satisfy all of the requirements of Section 404 of the Sarbanes-Oxley Act of 2002; however, we cannot be assured that our disclosure controls and procedures and our internal controls over financial reporting will prove to be completely adequate in the future. Failure to fully comply with Section 404 of the Sarbanes-Oxley Act of 2002 could negatively affect our business, market confidence in our reported financial information, and the price of our common stock.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The properties of the Company and its consolidated subsidiaries consist of land, leased stores, administrative facilities, and distribution centers. Gross square footage and total selling area for the Athletic Stores segment at the end of 2015 were approximately 12.92 and 7.58 million square feet, respectively. These properties, which are primarily leased, are located in the United States and its territories, Canada, various European countries, Australia, and New Zealand.

The Company currently operates five distribution centers, of which two are owned and three are leased, occupying an aggregate of 2.9 million square feet. Three distribution centers are located in the United States, one in Germany, and one in the Netherlands. The location in Germany relates to the central warehouse distribution centers for the Runners Point Group store locations, as well as a distribution center for its direct-to-customer business. During 2014, we opened a new distribution center in Germany which provides us with increased capacity that will enable us to support the planned growth of both the store and direct-to-customer businesses. This larger distribution center also allowed us to consolidate the previous two locations in Germany during 2015.

We also own a cross-dock and manufacturing facility and operate a leased warehouse in the United States, both of which support our Team Edition apparel business.

Item 3. Legal Proceedings

Information regarding the Company s legal proceedings is contained in the *Legal Proceedings* note under Item 8. Consolidated Financial Statements and Supplementary Data.

Item 4. Mine Safety Disclosures

Not applicable.

Executive Officers of the Registrant

Information with respect to Executive Officers of the Company, as of March 24, 2016, is set forth below:

President and Chief Executive Officer	Richard A. Johnson
Executive Vice President and Chief Executive Officer North America	Stephen D. Jacobs
Executive Vice President and Chief Executive Officer International	Lewis P. Kimble
Executive Vice President Operations Support	Robert W. McHugh
Executive Vice President and Chief Financial Officer	Lauren B. Peters
Senior Vice President and Chief Human Resources Officer	Paulette R. Alviti
Senior Vice President Real Estate	Jeffrey L. Berk
Senior Vice President and Chief Accounting Officer	Giovanna Cipriano
Senior Vice President, General Counsel and Secretary	Sheilagh M. Clarke
Senior Vice President and Chief Information Officer	Pawan Verma
Vice President, Treasurer and Investor Relations	John A. Maurer

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Richard A. Johnson, age 58, has served as President and Chief Executive Officer since December 1, 2014. Mr. Johnson previously served as Executive Vice President and Chief Operating Officer from May 16, 2012 through November 30, 2014. He served as Executive Vice President and Group President from July 2011 to May 15, 2012; President and Chief Executive Officer of Foot Locker U.S., Lady Foot Locker, Kids Foot Locker, and Footaction from January 2010 to July 2011; President and Chief Executive Officer of Foot Locker Europe from August 2007 to January 2010; and President and Chief Executive Officer of Footlocker.com/Eastbay from April 2003 to August 2007.

Stephen D. Jacobs, age 53, has served as Executive Vice President and Chief Executive Officer North America since February 29, 2016. Mr. Jacobs has been with the Company for 18 years in positions of increasing responsibility. Mr. Jacobs previously served as Executive Vice President and Chief Executive Officer Foot Locker North America from December 1, 2014 through February 28, 2016. He served as President and Chief Executive Officer of Foot Locker U.S., Lady Foot Locker, Kids Foot Locker, and Footaction from July 2011 to November 2014 and President and Chief Executive Officer of Champs Sports from January 2009 to June 2011.

Lewis P. Kimble, age 57, has served as Executive Vice President and Chief Executive Officer International since February 29, 2016. Mr. Kimble previously served as President and Chief Executive Officer of Foot Locker Europe from February 1, 2010 to February 28, 2016. Prior to that role Mr. Kimble led our business in Australia and New Zealand as Managing Director of Foot Locker Asia Pacific. Over his almost 40 years with the Company, Mr. Kimble has also held Vice President positions across multiple functions within the United States and Europe.

Robert W. McHugh, age 57, has served as Executive Vice President Operations Support since July 2011. He served as Executive Vice President and Chief Financial Officer from May 2009 to July 2011.

Lauren B. Peters, age 54, has served as Executive Vice President and Chief Financial Officer since July 2011. She served as Senior Vice President Strategic Planning from April 2002 to July 2011.

Paulette R. Alviti, age 45, has served as Senior Vice President and Chief Human Resources Officer since June 2013. From March 2010 to May 2013, Ms. Alviti served in various roles at PepsiCo, Inc.: SVP and Chief Human Resources Officer Asia, Middle East, Africa (February to May 2013); SVP Global Talent Acquisition and Deployment (July 2012 to February 2013); and SVP Human Resources (March 2010 to July 2012). From March 2008 to March 2010, she served as VP Human Resources of The Pepsi Bottling Group, Inc.

Jeffrey L. Berk, age 60, has served as Senior Vice President Real Estate since February 2000.

Giovanna Cipriano, age 46, has served as Senior Vice President and Chief Accounting Officer since May 2009.

Sheilagh M. Clarke, age 56, has served as Senior Vice President, General Counsel and Secretary since June 1, 2014. She previously served as Vice President, Associate General Counsel and Assistant Secretary from May 2007 to May 2014.

Pawan Verma, age 39, has served as Senior Vice President and Chief Information Officer since August 10, 2015. From February 2013 to July 2015, Mr. Verma served in various technology leadership roles at Target Corporation ranging from enterprise architecture, eCommerce, Mobile and digital, with his most recent role as Vice President-Digital Technology and API Platforms. From March 2011 to January 2013, he served as Sr. Director, eCommerce, Digital and Mobile of Convergys Corporation. He also served in various technology leadership roles at Verizon Wireless between October 2003 and February 2011.

John A. Maurer, age 56, has served as Vice President, Treasurer and Investor Relations since February 2011. Mr. Maurer served as Vice President and Treasurer from September 2006 to February 2011.

There are no family relationships among the executive officers or directors of the Company.

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PART II

Item 5. Market for the Company s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Foot Locker, Inc. common stock (ticker symbol FL) is listed on The New York Stock Exchange as well as on the Börse Stuttgart stock exchange in Germany. As of January 30, 2016, the Company had 14,237 shareholders of record owning 136,976,809 common shares.

The following table provides the intra-day high and low sales prices for the Company s common stock for the periods indicated below:

	2015		2014	
	High	**Low**	High	Low
1st Quarter	**$ 63.66**	**$ 52.12**	$ 48.71	$ 36.65
2nd Quarter	**71.07**	**60.14**	52.07	46.20
3rd Quarter	**77.25**	**63.02**	58.40	47.90
4th Quarter	**69.99**	**57.23**	59.19	51.12

During each of the quarters of 2015, the Company declared a dividend of $0.25 per share. The Board of Directors reviews the dividend policy and rate, taking into consideration the overall financial and strategic outlook for our earnings, liquidity, and cash flow. On February 17, 2016, the Board of Directors declared a quarterly dividend of $0.275 per share to be paid on April 29, 2016. This dividend represents a 10 percent increase over the Company s previous quarterly per share amount.

The following table is a summary of our fourth quarter share repurchases:

Date Purchased	Total Number of Shares Purchased(1)	Average Price Paid Per Share(1)	Total Number of Shares Purchased as Part of Publicly Announced Program(2)	Approximate Dollar Value of Shares that may yet be Purchased Under the Program(2)
Nov. 1, 2015 Nov. 28, 2015	1,305,157	$ 62.63	1,300,000	$ 658,881,376
Nov. 29, 2015 Jan. 2, 2016	219,484	64.76	219,484	644,668,097
Jan. 3, 2016 Jan. 30, 2016	124,418	63.20	123,616	636,854,327
	1,649,059	62.96	1,643,100	

(1) These columns also reflect shares acquired in satisfaction of the tax withholding obligation of holders of restricted stock awards which vested during the quarter, stock swaps, and 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. Through January 30, 2016, 5.6 million shares of common stock were purchased under this program, for an aggregate cost of $363 million.

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Performance Graph

The graph below compares the cumulative five-year total return to shareholders (common stock price appreciation plus dividends, on a reinvested basis) on Foot Locker, Inc.   s common stock relative to the total returns of the S&P 400 Retailing Index and the Russell Midcap Index.

The following Performance Graph and related information shall not be deemed   soliciting material   or to be filed with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that we specifically incorporate it by reference into such filing.

Indexed Share Price Performance

	1/29/2011	1/28/2012	2/2/2013	2/1/2014	1/31/2015	**1/30/2016**
Foot Locker, Inc.	$ 100.00	$ 153.23	$ 204.76	$ 233.92	$ 328.29	**$ 423.20**
S&P 400 Retailing Index	$ 100.00	$ 121.84	$ 150.82	$ 170.21	$ 206.94	**$ 181.10**
Russell Midcap Index	$ 100.00	$ 103.82	$ 123.03	$ 150.86	$ 171.46	**$ 158.80**

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Item 6. Selected Financial Data

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

The selected financial data below should be read in conjunction with the Consolidated Financial Statements and the Notes thereto and other information contained elsewhere in this report.

	2015	2014	2013	2012[1]	2011
	(in millions, except per share amounts)				
Summary of Operations					
Sales	**$7,412**	7,151	6,505	6,182	5,623
Gross margin	**2,505**	2,374	2,133	2,034	1,796
Selling, general and administrative expenses	**1,415**	1,426	1,334	1,294	1,244
Litigation, impairment and other charges	**105**	4	2	12	5
Depreciation and amortization	**148**	139	133	118	110
Interest expense, net	**4**	5	5	5	6
Other income	**(4)**	(9)	(4)	(2)	(4)
Net income	**541**	520	429	397	278
Per Common Share Data					
Basic earnings	**3.89**	3.61	2.89	2.62	1.81
Diluted earnings	**3.84**	3.56	2.85	2.58	1.80
Common stock dividends declared per share	**1.00**	0.88	0.80	0.72	0.66
Weighted-average Common Shares Outstanding					
Basic earnings	**139.1**	143.9	148.4	151.2	153.0
Diluted earnings	**140.8**	146.0	150.5	154.0	154.4
Financial Condition					
Cash, cash equivalents, and short-term investments	**$1,021**	967	867	928	851
Merchandise inventories	**1,285**	1,250	1,220	1,167	1,069
Property and equipment, net	**661**	620	590	490	427
Total assets	**3,775**	3,577	3,487	3,367	3,050
Long-term debt and obligations under capital leases	**130**	134	139	133	135
Total shareholders equity	**2,553**	2,496	2,496	2,377	2,110
Financial Ratios					
Sales per average gross square foot[2]	**$504**	490	460	443	406
SG&A as a percentage of sales	**19.1 %**	19.9	20.5	20.9	22.1
Earnings before interest and taxes (EBIT)	**$841**	814	668	612	441
EBIT margin	**11.3 %**	11.4	10.3	9.9	7.8
EBIT margin (non-GAAP)[3]	**12.8 %**	11.4	10.4	9.9	7.9
Net income margin	**7.3 %**	7.3	6.6	6.4	4.9
Net income margin (non-GAAP)[3]	**8.2 %**	7.3	6.6	6.2	5.0
Return on assets (ROA)	**14.7 %**	14.7	12.5	12.4	9.4
Return on invested capital (ROIC)[3]	**15.8 %**	15.0	14.1	14.2	11.8
Net debt capitalization percent[3],[4]	**47.4 %**	43.4	42.5	37.2	36.0
Current ratio	**3.7**	3.5	3.8	3.7	3.8

Other Data					
Capital expenditures	**$228**	190	206	163	152
Number of stores at year end	**3,383**	3,423	3,473	3,335	3,369
Total selling square footage at year end (in millions)	**7.58**	7.48	7.47	7.26	7.38
Total gross square footage at year end (in millions)	**12.92**	12.73	12.71	12.32	12.45

(1) 2012 represents the 53 weeks ended February 2, 2013.

(2) Calculated as Athletic Store sales divided by the average monthly ending gross square footage of the last thirteen months. The computation for each of the years presented reflects the foreign exchange rate in effect for such year. The 2012 amount has been calculated excluding the sales of the 53rd week.

(3) See Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations for additional information and calculation.

(4) Represents total debt and obligations under capital leases, net of cash, cash equivalents, and short-term investments. Additionally, this calculation includes the present value of operating leases, and accordingly is considered a non-GAAP measure.

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Item 7. 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 Profile

						Square Footage (in thousands)	
	January 31, 2015	Opened	Closed	**January 30, 2016**	Relocations/ Remodels	Selling	Gross
Foot Locker US	1,015	8	52	**971**	**54**	**2,451**	**4,234**
Foot Locker Europe	603	16	13	**606**	**34**	**863**	**1,884**
Foot Locker Canada	126	1	2	**125**	**8**	**279**	**435**
Foot Locker Asia Pacific	91	4	1	**94**	**6**	**128**	**210**
Lady Foot Locker	198		42	**156**		**208**	**352**
SIX:02	15	15		**30**		**62**	**101**
Kids Foot Locker	357	27	10	**374**	**44**	**602**	**1,029**
Footaction	272	13	17	**268**	**20**	**800**	**1,303**
Champs Sports	547	10	7	**550**	**41**	**1,947**	**2,972**
Runners Point	116	10	5	**121**	**2**	**158**	**259**
Sidestep	83	7	2	**88**		**82**	**139**
Total	3,423	111	151	**3,383**	**209**	**7,580**	**12,918**

Athletic Stores

The Company operates 3,383 stores in the Athletic Stores segment. The following is a brief description of the Athletic Stores segment s operating businesses and their respective taglines:

Foot Locker Approved Foot Locker is a leading global athletic footwear and apparel retailer, which caters to the sneaker enthusiast *If it s at Foot Locker, it s Approved*. Its stores offer the latest in athletically-inspired footwear and apparel, manufactured primarily by the leading athletic brands. Foot Locker provides the best selection of premium products for a wide variety of activities, including basketball, running, and training. Additionally, we operate 199 House of Hoops, primarily a shop-in-shop concept, which sells premier basketball-inspired footwear and apparel. Foot Locker s 1,796 stores are located in 23 countries including 971 in the United States, Puerto Rico, U.S. Virgin Islands, and Guam, 125 in Canada, 606 in Europe, and a combined 94 in Australia and New Zealand. The domestic stores have an average of 2,500 selling square feet and the international stores have an average of 1,500 selling square feet.

Lady Foot Locker *The Place for Her* Lady Foot Locker is a U.S. retailer of athletic footwear, apparel, and accessories dedicated to active women. Its stores carry major athletic footwear, apparel, and accessories brands designed for a variety of activities, including running, walking, training, and fitness. Lady Foot Locker operates 156 stores that are located in the United States and Puerto Rico. These stores have an average of 1,300 selling square feet.

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SIX:02 It s Your Time SIX:02 is an elevated retail concept designed for the modern woman, featuring top brands in athletic-inspired style. The apparel, footwear, and accessories assortments are carefully curated to inspire her best self-expression in the gym and out of it. This banner has unique local fitness and fashion partners in each market and also leverages top celebrity and social influencers to connect meaningfully to all aspects of a woman s life. SIX:02 operates 30 stores in the United States and have an average of 2,100 selling square feet.

Kids Foot Locker Go Big Kids Foot Locker is a youth athletic retailer that offers the largest selection of brand-name athletic footwear, apparel and accessories for young athletes. Its stores feature an environment geared to appeal to both parents and children. Of its 374 stores, 349 are located in the United States, Puerto Rico, and the U.S. Virgin Islands, 18 in Europe, and 7 in Canada. These stores have an average of 1,600 selling square feet.

Footaction Own It Footaction is a national athletic footwear and apparel retailer that offers the freshest, best edited selection of athletic lifestyle brands and looks. This banner is uniquely positioned at the intersection of sport and style. The primary customer is a style-obsessed, confident, influential young male who is always dressed to impress. Its 268 stores are located throughout the United States and Puerto Rico and focus on authentic, premium product. The Footaction stores have an average of 3,000 selling square feet.

Champs Sports We Know Game Champs Sports is one of the largest mall-based specialty athletic footwear and apparel retailers in North America. Its product categories include athletic footwear and apparel, and sport-lifestyle inspired accessories. This assortment allows Champs Sports to differentiate itself from other mall-based stores by presenting complete head-to-toe merchandising stories representing the most powerful athletic brands, sports teams, and athletes in North America. Of its 550 stores, 519 are located throughout the United States, Puerto Rico, and the U.S. Virgin Islands and 31 in Canada. The Champs Sports stores have an average of 3,500 selling square feet.

Runners Point Your Way, Our Passion Runners Point specializes in running footwear, apparel, and equipment for performance and lifestyle purposes. Its 121 stores are located in Germany, Austria and Switzerland. This banner caters to local running communities providing technical products, training tips and access to local running and group events. The Runners Point stores have an average of 1,300 selling square feet.

Sidestep Sneaker Lifestyle Sidestep is a predominantly sports fashion footwear banner. Its 88 stores are located in Germany, Austria, the Netherlands, and Switzerland. Sidestep caters to a more discerning, fashion consumer. Sidestep stores have an average of 900 selling square feet.

Direct-to-Customers

The Company s Direct-to-Customers segment is multi-branded and sells directly to customers through its Internet and mobile sites and catalogs. The Direct-to-Customers segment operates the websites for eastbay.com, final-score.com, eastbayteamsales.com, and sp24.com. Additionally, this segment includes the websites aligned with the brand names of its store banners (footlocker.com, ladyfootlocker.com, six02.com kidsfootlocker.com, champssports.com, footaction.com, footlocker.ca, footlocker.eu, runnerspoint.com, and sidestep-shoes.com). These sites offer some of the largest online selections of athletically inspired shoes and apparel, while providing a seamless link between ecommerce and store banners.

Eastbay First Choice For Athletes Eastbay is among the largest direct marketers in the United States, providing serious high school and other athletes with a complete sports solution including athletic footwear, apparel, equipment, team licensed, and private-label merchandise for a broad range of sports.

Franchise Operations

The Company has two separate ten-year agreements with third parties for the operation of Foot Locker stores located within the Middle East and the Republic of Korea. The franchised stores located in Germany operate under the Runners Point banner. A total of 64 franchised stores were operating at January 30, 2016, of which 40 were operating in the Middle East, 16 in Germany, and 8 in the Republic of Korea. During 2015, the Company completed an acquisition from Futura Sport AG of 10 Runners Point and Sidestep stores, which were previously franchise stores. Royalty income 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.

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Reconciliation of Non-GAAP Measures

In the following tables, the Company has presented certain financial measures and ratios identified as non-GAAP. The Company believes this non-GAAP information is useful to investors because it allows for a more direct comparison of the Company s performance for 2015 as compared with prior years and is useful in assessing the Company s progress in achieving its long-term financial objectives. The following represents a reconciliation of the non-GAAP measures discussed throughout the Overview of Consolidated Results:

	2015	2014	2013
	(in millions, except per share amounts)		
Sales	**$ 7,412**	$ 7,151	$ 6,505
Pre-tax income:			
Income before income taxes	**$ 837**	$ 809	$ 663
Pre-tax amounts excluded from GAAP:			
Pension litigation charge	**100**		
Impairment and other charges	**5**	4	2
Runners Point Group integration and acquisition costs		2	6
Gain on sale of real estate		(4)	
Total pre-tax amounts excluded	**105**	2	8
Income before income taxes (non-GAAP)	**$ 942**	$ 811	$ 671
Calculation of Earnings Before Interest and Taxes (EBIT):			
Income before income taxes	**$ 837**	$ 809	$ 663
Interest expense, net	**4**	5	5
EBIT	**$ 841**	$ 814	$ 668
Income before income taxes (non-GAAP)	**$ 942**	$ 811	$ 671
Interest expense, net	**4**	5	5
EBIT (non-GAAP)	**$ 946**	$ 816	$ 676
EBIT margin %	**11.3 %**	11.4 %	10.3 %
EBIT margin % (non-GAAP)	**12.8 %**	11.4 %	10.4 %
After-tax income:			
Net income	**$ 541**	$ 520	$ 429
After-tax amounts excluded from GAAP:			
Pension litigation charge	**61**		
Impairment and other charges	**4**	3	1
Runners Point Group acquisition and integration costs		2	5
Gain on sale of property		(3)	
Settlement of foreign tax audits			(3)
Net income (non-GAAP)	**$ 606**	$ 522	$ 432
Net income margin %	**7.3 %**	7.3 %	6.6 %
Net income margin % (non-GAAP)	**8.2 %**	7.3 %	6.6 %
Diluted earnings per share:			
Net income	**$ 3.84**	$ 3.56	$ 2.85
Pension litigation charge	**0.43**		
Impairment and other charges	**0.02**	0.02	0.01
Runners Point Group acquisition and integration costs		0.01	0.03
Gain on sale of property		(0.01)	

Settlement of foreign tax audits			(0.02)
Net income (non-GAAP)	**$ 4.29**	$ 3.58	$ 2.87

The Company estimates the tax effect of the non-GAAP adjustments by applying its marginal tax rate to each of the respective items. During 2013, the Company recorded a benefit of $3 million, or $0.02 per diluted share, to reflect the settlement of foreign tax audits, which resulted in a reduction in tax reserves established in prior periods.

When assessing Return on Invested Capital (ROIC), the Company adjusts its results to reflect its operating leases as if they qualified for capital lease treatment. Operating leases are the primary financing vehicle used to fund store expansion and, therefore, we believe that the presentation of these leases as if they were capital

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leases is appropriate. Accordingly, the asset base and net income amounts are adjusted to reflect this in the calculation of ROIC. ROIC, subject to certain adjustments, is also used as a measure in executive long-term incentive compensation.

The closest U.S. GAAP measure is Return on Assets (ROA) and is also represented below. ROA remained unchanged compared with the prior year. Our ROIC improvement is due to an increase in our non-GAAP earnings before interest and income taxes, partially offset by an increase in our average invested capital, primarily related to an increase in capitalized operating leases. This reflected the inclusion of the new headquarters lease and the effect of opening larger stores supporting the various shop-in-shop initiatives.

	2015	2014	2013
ROA(1)	**14.7 %**	14.7 %	12.5 %
ROIC % (non-GAAP)(2)	**15.8 %**	15.0 %	14.1 %

(1) Represents net income of $541 million, $520 million, and $429 million divided by average total assets of $3,676 million, $3,532 million, and $3,427 million for 2015, 2014, and 2013, respectively.

(2) See below for the calculation of ROIC.

	2015	2014	2013
	($ in millions)		
EBIT (non-GAAP)	**$ 946**	$ 816	$ 676
+ Rent expense	**640**	635	600
- Estimated depreciation on capitalized operating leases(3)	**(498)**	(482)	(443)
Net operating profit	**1,088**	969	833
- Adjusted income tax expense(4)	**(391)**	(347)	(298)
= Adjusted return after taxes	**$ 697**	$ 622	$ 535
Average total assets	**$ 3,676**	$ 3,532	$ 3,427
- Average cash, cash equivalents and short-term investments	**(994)**	(917)	(898)
- Average non-interest bearing current liabilities	**(697)**	(659)	(630)
- Average merchandise inventories	**(1,268)**	(1,235)	(1,194)
+ Average estimated asset base of capitalized operating leases(3)	**2,346**	2,093	1,829
+ 13-month average merchandise inventories	**1,337**	1,325	1,269
= Average invested capital	**$ 4,400**	$ 4,139	$ 3,803
ROIC %	**15.8 %**	15.0 %	14.1 %

(3) The determination of the capitalized operating leases and the adjustments to income have been calculated on a lease-by-lease basis and have been consistently calculated in each of the years presented above. Capitalized operating leases represent the best estimate of the asset base that would be recorded for operating leases as if they had been classified as capital or as if the property were purchased. The present value of operating leases is discounted using various interest rates ranging from 2.5 percent to 14.5 percent, which represent the Company s incremental borrowing rate at inception of the lease. The capitalized operating leases and related income statements amounts disclosed above do not reflect the requirements of the recently issued Accounting Standards Update 2016-02, *Leases.*

(4) The adjusted income tax expense represents the marginal tax rate applied to net operating profit for each of the periods presented.

Overview of Consolidated Results

In March 2015, the Company updated its long-range plan and long-term financial objectives as presented below. The following represents our results and our progress towards meeting the updated objectives. Non-GAAP results are presented for all the periods.

	Long-term Objectives	**2015**	2014	2013
Sales ($ in millions)	**$ 10,000**	**$ 7,412**	$ 7,151	$ 6,505
Sales per gross square foot	**$ 600**	**$ 504**	$ 490	$ 460
EBIT margin	**12.5 %**	**12.8 %**	11.4 %	10.4 %
Net income margin	**8.5 %**	**8.2 %**	7.3 %	6.6 %
ROIC	**17.0 %**	**15.8 %**	15.0 %	14.1 %

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Highlights of our 2015 financial performance include:

Sales and comparable-store sales, as noted in the table below, both increased and continued to benefit from exciting assortments and enhanced store formats across our various banners, as well as improved performance of the Company s store banner.com websites.

	2015		2014		2013	
Sales increase	**3.6**	**%**	9.9	%	6.6	%
Comparable-store sales increase	**8.5**	**%**	8.0	%	4.2	%

The following represents the percentage of sales from each of the major product categories:

	2015		2014		2013	
Footwear sales	**82**	**%**	79	%	77	%
Apparel and accessories sales	**18**	**%**	21	%	23	%

Sales from the Direct-to-Customers segment increased 9.1 percent to $944 million, compared with $865 million in 2014 and increased 60 basis points as a percentage of total sales to 12.7 percent. The direct business has been steadily increasing over the last several years, led by the growth in the store banners ecommerce sales.

Gross margin, as a percentage of sales, increased by 60 basis points to 33.8 percent in 2015. The improvement was driven by a decrease in the occupancy and buyers expense rate coupled with an increase in the merchandise margin rate. These reflect effective leverage on higher sales and a lower markdown rate.

SG&A expenses on a constant currency basis were 19.2 percent of sales, a decrease of 70 basis points as compared with the prior year, as we continued to diligently manage expenses.

EBIT margin was 12.8 percent, surpassing the long-term financial objective and reflecting the strong earnings generated during 2015.

Net income on a non-GAAP basis was $606 million, or $4.29 diluted earnings per share, an increase of 19.8 percent from the prior-year period.

The Company ended the year in a strong financial position. At year end, the Company had $891 million of cash and cash equivalents, net of debt and obligations under capital leases. Cash and cash equivalents at January 30, 2016 were $1,021 million, representing an increase of $54 million as compared with last year. This improvement reflects earnings strength and the successful execution of various key initiatives noted in the items below.

Net cash provided by operating activities was $745 million, representing a $33 million increase over last year.

Cash capital expenditures during 2015 totaled $228 million and were primarily directed to the remodeling or relocation of 209 stores, the build-out of approximately 100 new stores, as well as other technology and infrastructure projects.

During 2015 we returned significant value to our shareholders. Dividends totaling $139 million were declared and paid during 2015, and a total of 6.7 million shares were repurchased under our share repurchase program at a cost of $419 million.

ROIC increased to 15.8 percent as compared to the prior year result of 15.0 percent, reflecting profitability improvements and a disciplined approach to capital spending.

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