FOOT LOCKER, INC.
Form 10-Q
June 06, 2018
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: May 5, 2018

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)

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 June 1, 2018: 116,909,047

FOOT LOCKER, INC.

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

FOOT LOCKER, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

($ in millions, except shares)

	May 5, 2018 (Unaudited)	April 29, 2017 (Unaudited)	February 3, 2018 *
ASSETS			
Current assets:			
Cash and cash equivalents	$ 1,029	$ 1,049	$ 849
Merchandise inventories	1,210	1,279	1,278
Other current assets	301	294	424
	2,540	2,622	2,551
Property and equipment, net	843	792	866
Deferred taxes	104	162	48
Goodwill	158	156	160
Other intangible assets, net	43	43	46
Other assets	275	102	290
	$ 3,963	$ 3,877	$ 3,961
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$ 344	$ 208	$ 258
Accrued and other liabilities	309	327	358
	653	535	616
Long-term debt	125	127	125

Other liabilities	642	393	701
Total liabilities	1,420	1,055	1,442
Shareholders’ equity:			
Common stock and paid-in capital: 121,341,925; 133,088,450; and 121,262,456 shares outstanding, respectively	848	914	842
Retained earnings	2,184	2,393	2,019
Accumulated other comprehensive loss	(313)	(357)	(279)
Less: Treasury stock at cost: 4,080,653; 1,791,789; and 1,433,433 shares, respectively	(176)	(128)	(63)
Total shareholders' equity	2,543	2,822	2,519
	$ 3,963	$ 3,877	$ 3,961

See Accompanying Notes to Condensed Consolidated Financial Statements.

* The balance sheet at February 3, 2018 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 February 3, 2018.

1

FOOT LOCKER, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in millions, except per share amounts)

	Thirteen weeks ended	
	May 5, 2018	April 29, 2017
Sales	$ 2,025	$ 2,001
Cost of sales	1,359	1,321
Selling, general and administrative expenses	385	371
Depreciation and amortization	45	41
Litigation and other charges	12	—
Income from operations	224	268
Interest income, net	(2)	—
Other income	(3)	(1)
Income before income taxes	229	269
Income tax expense	64	89
Net income	$ 165	$ 180
Basic earnings per share	$ 1.39	$ 1.37
Weighted-average shares outstanding	118.7	131.4
Diluted earnings per share	$ 1.38	$ 1.36
Weighted-average shares outstanding, assuming dilution	119.1	132.6

See Accompanying Notes to Condensed Consolidated Financial Statements.

2

FOOT LOCKER, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

($ in millions)

	Thirteen weeks ended	
	May 5, 2018	April 29, 2017
Net income	$ 165	$ 180
Other comprehensive income, net of income tax:		
Foreign currency translation adjustment:		
Translation adjustment arising during the period, net of income tax benefit of $(5) and $(1) million, respectively	(38)	4
Cash flow hedges:		
Change in fair value of derivatives, net of income tax	1	(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 and $1 million, respectively, and foreign currency fluctuations	3	3
Comprehensive income	$ 131	$ 186

See Accompanying Notes to Condensed Consolidated Financial Statements.

FOOT LOCKER, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

($ in millions)

	Thirteen weeks ended	
	May 5, 2018	April 29, 2017
From operating activities:		
Net income	$ 165	$ 180
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	45	41
Share-based compensation expense	5	5
Qualified pension plan contributions	—	(25)
Change in assets and liabilities:		
Merchandise inventories	53	31
Accounts payable	90	(41)
Accrued and other liabilities	(6)	(26)
Pension litigation accrual	12	—
Other, net	51	(6)
Net cash provided by operating activities	415	159
From investing activities:		
Capital expenditures	(64)	(75)
Insurance proceeds related to loss on property and equipment	1	—
Net cash used in investing activities	(63)	(75)
From financing activities:		
Purchase of treasury shares	(112)	(38)
Dividends paid on common stock	(41)	(41)
Proceeds from exercise of stock options	—	9
Shares of common stock repurchased to satisfy tax withholding obligations	(1)	(9)
Net cash used in financing activities	(154)	(79)
Effect of exchange rate fluctuations on cash, cash equivalents, and restricted cash	(18)	(1)
Net change in cash, cash equivalents, and restricted cash	180	4
Cash, cash equivalents, and restricted cash at beginning of period	1,031	1,073
Cash, cash equivalents, and restricted cash at end of period	$ 1,211	$ 1,077

Cash paid during the period:		
Interest	$ —	$ —
Income taxes	$ 61	$ 122

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 normal, recurring adjustments necessary for a fair presentation of the results for the interim periods of the fiscal year ending February 2, 2019 and of the fiscal year ended February 3, 2018. 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 February 3, 2018, as filed with the U.S. Securities and Exchange Commission (the "SEC") on March 29, 2018.

Other than the changes to the Revenue Recognition policies as a result of the recently adopted accounting standards discussed below, there were no significant changes to our significant accounting policies disclosed in Note 1, Summary of Significant Accounting Policies of our Annual Report on Form 10-K for the year ended February 3, 2018.

Recently Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606). The core principle of Topic 606 is to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company adopted ASU 2014-09 during the first quarter of 2018 using the modified retrospective method. We recognized $5 million, or $4 million net of tax, as the cumulative effect of initially applying the new revenue standard as an increase to the opening balance of retained earnings.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. ASU 2016-16 requires recognition of income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The Company adopted this ASU during the first quarter of 2018 using the modified retrospective method, and as a result increased deferred income tax assets by $37 million. The Company has written off the income tax effects that had been deferred from past intercompany transactions involving non-inventory assets to opening retained earnings. The Company also recorded deferred tax assets with an offset to opening retained earnings for amounts that were not previously recognized under the previous guidance but are recognized under this ASU.

Other recently adopted ASUs are discussed within the applicable disclosures on the following pages.

Recent Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, Leases. This ASU requires 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 therein, and requires a modified retrospective adoption, with earlier adoption permitted. The Company does not expect to adopt this ASU until required and is evaluating the effect of this guidance. The Company has historically presented a non-GAAP measure to adjust its balance sheet to present operating leases as if they were capital leases. Based upon that analysis and preliminary evaluation of the standard, we estimate the adoption will result in the addition of $3 billion to $4 billion of assets and liabilities to our consolidated balance sheet, with no significant change to our consolidated statements of operations or cash flows.

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

Revenue Recognition

Store revenue is recognized at the point of sale and includes merchandise, net of returns, and excludes taxes. Revenue from layaway sales is recognized when the customer receives the product, rather than when the initial deposit is paid.

In conjunction with the adoption of Topic 606 during the first quarter of 2018, we have determined that revenue for merchandise that is shipped to our customers from our distribution centers and stores will be recognized upon shipment date. Total revenue recognized includes shipping and handling fees. We have determined that control of the promised good is passed to the customer upon shipment date since the customer has legal title, the rewards of ownership, and paid for the merchandise as of the shipment date. This reflects a change in timing in how we previously recognized revenue for our direct-to-customer sales. Prior to the adoption of Topic 606, the Company recognized such revenue upon date of delivery. As a result of this change, the Company recorded $1 million, net of tax, as an increase to opening retained earnings to reflect the cumulative effect of adopting this change. We have elected to account for shipping and handling as a fulfillment activity. The Company accrues the cost and recognized revenue for these activities upon shipment date.

Gift Cards

The Company sells to its customers gift cards, which do not have expiration dates. Revenue from gift card sales is recorded when the gift cards are redeemed. Effective as of the first quarter of 2018 with the adoption of Topic 606, gift card breakage is recognized as revenue in proportion to the pattern of rights exercised by the customer, unless there is a legal obligation to remit the value of unredeemed gift cards to the relevant jurisdictions. This reflects a change in our accounting for gift card breakage from the remote method to the proportional method. As a result of adopting Topic 606, the Company recorded $4 million, or $3 million net of tax, as an increase to opening retained earnings to reflect the cumulative effect of this change based upon historical redemption patterns. Additionally, breakage income was previously recorded within selling, general and administrative expenses, however this amount is currently reported within sales as required by the standard. This change in classification is not considered significant.

2. Revenue

Sales disaggregated based upon sales channel is presented below.

	Thirteen weeks ended	
	May 5, 2018	April 29, 2017
	($ in millions)	
Stores	$ 1,743	$ 1,722
Direct-to-customers	282	279
Total sales	$ 2,025	$ 2,001

Sales disaggregated based upon geographic area is presented in the below table. Sales are attributable to the country in which the sales transaction is fulfilled.

	Thirteen weeks ended	
	May 5, 2018	April 29, 2017
	($ in millions)	
United States	$ 1,501	$ 1,500
International	524	501
Total sales	$ 2,025	$ 2,001

FOOT LOCKER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Contract Liabilities

The table below presents the activity of our gift card liability balance:

		($ in millions)
Balance at February 4, 2018	$	38
Redemptions		(24)
Cumulative catch-up adjustment to retained earnings from the adoption of Topic 606		(4)
Breakage recognized		(2)
Activations		20
Balance at May 5, 2018	$	28

Due to the fact that most gift cards are redeemed within 12 months, the Company elected not to disclose information about remaining performance obligations.

3. Segment Information

The Company has integrated all available shopping channels including stores, websites, and catalogs. Store sales are primarily fulfilled from the store's inventory, but may also be shipped from any of our distribution centers or from a different store location if an item is not available at the original store. Direct-to-customer orders are primarily shipped to our customers through our distribution centers but may also be shipped from any store or a combination of our distribution centers and stores depending on the availability of particular items.

Our operating segments are identified according to how our business activities are managed and evaluated by our chief operating decision maker, our CEO. Prior to fiscal 2018, the Company had two reportable segments: Athletic Stores and Direct-to-Customers. Beginning in fiscal 2018, the Company has changed its organizational and internal reporting structure in order to execute our omni-channel strategy. In light of these changes, the Company has re-evaluated its operating segments, which now reflect the combination of stores and direct-to-customer by geography. The Company has determined that it has two operating segments, North America and International. Our North America operating segment includes the results of the following banners: Foot Locker, Kids Foot Locker, Lady Foot Locker, Champs Sports, Footaction, SIX:02, Foot Locker Canada, including each of their related e-commerce businesses, as well as our Eastbay business that includes internet, catalog, and team services and sales. Our International operating segment includes the results of Foot Locker Europe, Runners Point, Sidestep, Foot Locker Asia Pacific, including each of their related e-commerce businesses. We have further aggregated these operating segments into one reportable segment based upon their shared customer base and similar economic characteristics. Prior-year information has been restated to reflect this change.

The Company evaluates performance based on several factors, of which the primary financial measure is division results. Division profit reflects income before income taxes, pension litigation charge, corporate expense, non-operating income, and net interest income. The following table summarizes our results:

	Thirteen weeks ended	
	May 5, 2018	April 29, 2017
	($ in millions)	
Sales	$ 2,025	$ 2,001
Operating Results		
Division profit	247	283
Less: Pension litigation (1)	12	—
Less: Corporate expense (2)	11	15
Income from operations	224	268
Interest income, net	(2)	—
Other income (3)	3	1
Income before income taxes	$ 229	$ 269

FOOT LOCKER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Included in the thirteen weeks ended May 5, 2018 is a pre-tax charge of $12 million relating to a pension litigation matter described further in Note 14, Legal Proceedings.
(2) Corporate expense consists of unallocated selling general and administrative expenses as well as depreciation and amortization related to the Company's corporate headquarters, centrally managed departments, unallocated insurance and benefit programs, certain foreign exchange transaction gains and losses, and other items.
(3) Other income includes non-operating items, such as lease termination gains, royalty income, changes in fair value, premiums paid, realized gains and losses associated with foreign currency option contracts, changes in the market value of our available-for-sale security, and net benefit expense related to our pension and postretirement programs excluding the service cost component.

4. Litigation and Other Charges

As more fully discussed in Note 14, Legal Proceedings, during the first quarter of 2018 the Company recorded a $12 million charge related to the pension litigation. This charge comprised $11 million related to the estimated cost of the reformation and $1 million in professional fees incurred in connection with the plan reformation.

During the third quarter of the prior year, the Company reorganized its organizational structure by adjusting certain divisional responsibilities between our various businesses. The following is a reconciliation of the accrual recorded in connection with that event for the quarter ended May 5, 2018:

($ in millions)	Severance and Benefit Costs	Other Related Charges	Total
Balance at February 3, 2018	$ 5	$ 2	$ 7
Amounts charged to expense	—	—	—
Cash payments	(2)	—	(2)
Balance at May 5, 2018	$ 3	$ 2	$ 5

5. Restricted Cash

The following table provides a reconciliation of cash and cash equivalents, as reported on our condensed consolidated balance sheets, to cash, cash equivalents, and restricted cash, as reported on our condensed consolidated statements of cash flows.

	May 5, 2018	April 29, 2017	February 3, 2018
	($ in millions)		
Cash and cash equivalents	$ 1,029	$ 1,049	$ 849
Restricted cash included in other current assets	1	1	1
Restricted cash included in other non-current assets	181	27	181
Cash, cash equivalents, and restricted cash	$ 1,211	$ 1,077	$ 1,031

Amounts included in restricted cash primarily relate to funds deposited to a qualified settlement fund in connection with the pension litigation and amounts held in escrow in connection with various leasing arrangements in Europe. In addition, restricted cash reflects deposits held in insurance trusts in order to satisfy the requirement to collateralize part of the self-insured workers' compensation and liability claims.

6. 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.

FOOT LOCKER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As a result of the first quarter change in our organizational and internal reporting structure, we have determined that we have one reportable segment. We have reassessed our reporting units in light of this change and have deemed the collective omni-channel banners in North America and International to be the two reporting units at which goodwill is tested. Therefore, goodwill was re-allocated to these reporting units based on their relative fair values. As required, we conducted our annual impairment review both before and after this change. Neither review resulted in the recognition of impairment, as the fair value of each reporting unit exceeded its carrying value.

7. Other Intangible Assets, net

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

	May 5, 2018			April 29, 2017			February 3, 2018		
($ in millions)	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	$ 128	$ (117)	$ 11	$ 118	$ (107)	$ 11	$ 135	$ (122)	$ 13
Trademarks / trade names	20	(14)	6	20	(13)	7	20	(14)	6
Favorable leases	7	(6)	1	7	(5)	2	7	(6)	1
	$ 155	$ (137)	$ 18	$ 145	$ (125)	$ 20	$ 162	$ (142)	$ 20
Indefinite life intangible assets: (1)									
Runners Point Group trademarks / trade names			$ 25			$ 23			$ 26
Other intangible assets, net			$ 43			$ 43			$ 46

(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.

The annual review of intangible assets with indefinite lives performed during the first quarter of 2018 did not result in the recognition of impairment.

Amortization expense recorded is as follows:

	Thirteen weeks ended	
($ in millions)	May 5, 2018	April 29, 2017
Amortization expense	$ 1	$ 1

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

	($ in millions)
Remainder of 2018	$ 3
2019	4
2020	3
2021	2
2022	2
2023	2

FOOT LOCKER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. Accumulated Other Comprehensive Loss

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

	May 5, 2018	April 29, 2017	February 3, 2018
	($ in millions)		
Foreign currency translation adjustments	$ (47)	$ (123)	$ (9)
Cash flow hedges	1	—	—
Unrecognized pension cost and postretirement benefit	(267)	(233)	(270)
Unrealized loss on available-for-sale security	—	(1)	—
	$ (313)	$ (357)	$ (279)

The changes in AOCL for the thirteen weeks ended May 5, 2018 were as follows:

($ in millions)	Foreign Currency Translation Adjustments	Cash Flow Hedges	Items Related to Pension and Postretirement Benefits	Total
Balance as of February 3, 2018	$ (9)	$ —	$ (270)	$ (279)
OCI before reclassification	(38)	1	1	(36)
Reclassified from AOCL	—	—	2	2
Other comprehensive income	(38)	1	3	(34)
Balance as of May 5, 2018	$ (47)	$ 1	$ (267)	$ (313)

Reclassifications from AOCL for the thirteen weeks ended May 5, 2018 were as follows:

	($ in millions)
Amortization of actuarial (gain) loss:	

Pension benefits- amortization of actuarial loss	$	3
Postretirement benefits- amortization of actuarial gain		—
Net periodic benefit cost (see Note 12)		3
Income tax benefit		(1)
Net of tax	$	2

9. Income Taxes

In March 2018, the FASB issued ASU 2018-05, Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 (“SAB 118”). This update provides guidance on income tax accounting implications under Public Law 115-97, informally known as the Tax Cuts and Jobs Act (the "Tax Act"), which was enacted on December 22, 2017. The Tax Act significantly revised the U.S. corporate income tax by, among other things, lowering the statutory corporate tax rate from 35 percent to 21 percent, eliminating certain deductions, imposing a mandatory one-time tax on accumulated earnings of foreign subsidiaries, introducing new tax regimes, and changing how foreign earnings are subject to U.S. tax. SAB 118 addressed the application of GAAP to situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. As of the fourth quarter of 2017, the Company had not completed the determination of the accounting implications of the Tax Act on the Company’s tax accruals. However, we reasonably estimated the effects of the Tax Act and recognized a provisional net tax expense of $99 million associated with the Tax Act in the fourth quarter of 2017.

For the thirteen weeks ended May 5, 2018, our accounting for the Tax Act is still incomplete. We have not made any measurement-period adjustments related to these items during the first quarter of fiscal 2018 because we have not finalized the following items: the earnings and profits of the relevant subsidiaries, deemed repatriation of deferred foreign income, and prior-year deferred tax activity. We are continuing to gather additional information to complete our accounting for these items and expect to complete our accounting within the one-year time period provided by SAB 118. Any adjustment to these amounts during the measurement period will be recorded in income tax expense in the period in which the analysis is complete.

FOOT LOCKER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Company continues to evaluate the provisions of the Tax Act, including the global intangible low-taxed income (“GILTI”) and the foreign derived intangible income (“FDII”) provisions. The Company has made an accounting policy election to treat GILTI taxes as a current period expense.

The ultimate effect of the Tax Act may differ from these provisional amounts, possibly materially, due to, among other things, additional analysis, changes in interpretations and assumptions the Company has made, additional regulatory guidance that may be issued, as well as any related actions the Company may take.

For the thirteen weeks ended May 5, 2018, the Company recorded an income tax provision of $64 million, which represented an effective tax rate of 27.9 percent, compared with the prior-year income tax provision of $89 million, which represented an effective tax rate of 33.0 percent. The Company’s interim provision for income taxes is measured using an annual effective tax rate, adjusted for discrete items that occur within the periods presented.

10. 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 May 5, 2018 ($ in millions)			As of April 29, 2017			As of February 3, 2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets									
Available-for-sale security	$ —	$ 6	$ —	$ —	$ 6	$ —	$ —	$ 7	$ —
Foreign exchange forward contracts	—	1	—	—	—	—	—	1	—
Total Assets	$ —	$ 7	$ —	$ —	$ 6	$ —	$ —	$ 8	$ —
Liabilities									
Foreign exchange forward contracts	—	1	—	—	2	—	—	1	—