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: July 31, 2021

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

FOOT LOCKER, INC.
(Exact name of registrant as specified in its charter)

New York	**13-3513936**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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)

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.01 Preferred Stock Purchase Rights	FL	New York Stock Exchange New York Stock Exchange

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 every Interactive Data File required to be submitted 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 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 September 3, 2021: 103,807,679

FOOT LOCKER, INC.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes “forward-looking” statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words such as “believes,” “expects,” “anticipates,” “estimates,” “intends,” “plans,” “seeks,” “continues,” “feels,” “forecasts,” or words of similar meaning, or future or conditional verbs, such as “will,” “should,” “could,” “may,” “aims,” “intends,” or “projects.” These statements include statements relating to trends in or expectations relating to the expected effects of our initiatives, strategies and plans, as well as trends in or expectations regarding our financial results and long-term growth model and drivers, tax rates, business opportunities and expansion, acquisitions or investments, expenses, dividends, share repurchases, and our mitigation strategies, liquidity, cash flow from operations, use of cash and cash requirements, borrowing capacity and use of proceeds, repatriation of cash to the U.S., the effects of all variants of the coronavirus pandemic (COVID-19), including but not limited to supply chain issues, and social unrest, on our financial results. A forward-looking statement is neither a prediction nor a guarantee of future events or circumstances, and those future events or circumstances may not occur. You should not place undue reliance on forward-looking statements, which speak to our views only as of the date of this filing. These forward-looking statements are all based on currently-available operating, financial, and competitive information, and are subject to various risks and uncertainties, many of which are unforeseeable and beyond our control, such as the ongoing uncertainty related to COVID-19. 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.

Please refer to “Item 1A. Risk Factors” of our most recent Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission. Given these risks and uncertainties, you should not rely on forward-looking statements as predictions of actual results. Any or all of the forward-looking statements contained in this report or any other public statement made by us, including by our management, may turn out to be incorrect. We are including this cautionary note to make applicable and take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 for forward-looking statements. We expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

FOOT LOCKER, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

($ in millions, except share amounts)		**July 31, 2021**		**August 1, 2020**		**January 30, 2021***
ASSETS						
Current assets:						
Cash and cash equivalents	**$**	**1,845**	$	1,373	$	1,680
Merchandise inventories		**1,081**		1,194		923
Other current assets		**252**		266		232
		3,178		2,833		2,835
Property and equipment, net		**743**		782		788
Operating lease right-of-use assets		**2,569**		2,810		2,716
Deferred taxes		**108**		70		101
Goodwill		**158**		158		159
Other intangible assets, net		**16**		19		17
Minority investments		**728**		150		337
Other assets		**85**		90		90
	$	**7,585**	$	6,912	$	7,043
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current liabilities:						
Accounts payable	**$**	**539**	$	630	$	402
Accrued and other liabilities		**474**		455		560
Current portion of debt and obligations under finance leases		**102**		—		102
Current portion of lease obligations		**566**		587		580
		1,681		1,672		1,644
Long-term debt and obligations under finance leases		**10**		124		8
Long-term lease obligations		**2,363**		2,579		2,499
Other liabilities		**190**		134		116
Total liabilities		**4,244**		4,509		4,267
Commitments and contingencies						
Shareholders' equity:						
Common stock and paid-in capital: 104,515,702; 104,391,691; and 103,693,359 shares issued, respectively		**799**		774		779
Retained earnings		**2,916**		1,996		2,326
Accumulated other comprehensive loss		**(338)**		(367)		(331)
Less: Treasury stock at cost: 714,490; 426; and 74,236 shares, respectively		**(41)**		—		(3)
Noncontrolling interest		**5**		—		5
Total shareholders' equity		**3,341**		2,403		2,776
	$	**7,585**	$	6,912	$	7,043

* The balance sheet at January 30, 2021 has been derived from the previously reported audited consolidated financial statements at that date, but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in Foot Locker, Inc.'s Annual Report on Form 10-K for the year ended January 30, 2021.

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

FOOT LOCKER, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

($ in millions, except per share amounts)	Thirteen weeks ended July 31, 2021	Thirteen weeks ended August 1, 2020	Twenty-six weeks ended July 31, 2021	Twenty-six weeks ended August 1, 2020
Sales	**$ 2,275**	$ 2,077	**$ 4,428**	$ 3,253
Cost of sales	**1,477**	1,539	**2,881**	2,444
Selling, general and administrative expenses	**450**	387	**868**	703
Depreciation and amortization	**48**	44	**93**	88
Impairment and other charges	**36**	38	**40**	54
Income (loss) from operations	**264**	69	**546**	(36)
Interest expense, net	**(2)**	(2)	**(4)**	(3)
Other income, net	**325**	3	**329**	4
Income (loss) before income taxes	**587**	70	**871**	(35)
Income tax expense	**157**	25	**239**	30
Net income (loss)	**$ 430**	$ 45	**$ 632**	$ (65)
Basic earnings (loss) per share	**$ 4.14**	$ 0.43	**$ 6.10**	$ (0.62)
Weighted-average shares outstanding	**103.8**	104.5	**103.7**	104.4
Diluted earnings (loss) per share	**$ 4.09**	$ 0.43	**$ 6.02**	$ (0.62)
Weighted-average shares outstanding, assuming dilution	**105.2**	105.1	**105.1**	104.4

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

FOOT LOCKER, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

($ in millions)	Thirteen weeks ended July 31, 2021	Thirteen weeks ended August 1, 2020	Twenty-six weeks ended July 31, 2021	Twenty-six weeks ended August 1, 2020
Net income (loss)	**$ 430**	$ 45	**$ 632**	$ (65)
Other comprehensive income (loss), net of income tax				
Foreign currency translation adjustment:				
Translation adjustment arising during the period, net of income tax expense of $-, $4, $1, and $2, respectively	**(14)**	36	**(10)**	20
Cash flow hedges:				
Change in fair value of derivatives, net of income tax expense of $-, $-, $-, and $1, respectively	**—**	—	**—**	3
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, $1, and $2, respectively	**2**	1	**3**	4
Comprehensive income (loss)	**$ 418**	$ 82	**$ 625**	$ (38)

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

Thirteen weeks ended (shares in thousands, amounts in millions)	Additional Paid-In Capital & Common Stock Shares	Additional Paid-In Capital & Common Stock Amount	Treasury Stock Shares	Treasury Stock Amount	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling interests	Total Shareholders' Equity
Balance at May 1, 2021	**104,286**	**$ 791**	**(887)**	**$ (47)**	**$ 2,507**	**$ (326)**	**$ 5**	**$ 2,930**
Restricted stock issued	11	—						—
Issued under director and stock plans	219	7						7
Share based compensation expense		8						8
Shares of common stock used to satisfy tax withholding obligations			(3)	(1)				(1)
Share repurchases			(125)	(7)				(7)
Reissued for Employee Stock Purchase Plan ("ESPP")		(7)	301	14				7
Net income					430			430
Cash dividends declared on common stock ($0.20 per share)					(21)			(21)
Translation adjustment, net of tax						(14)		(14)
Pension and postretirement adjustments, net of tax						2		2
Balance at July 31, 2021	**104,516**	**$ 799**	**(714)**	**$ (41)**	**$ 2,916**	**$ (338)**	**$ 5**	**$ 3,341**
Balance at May 2, 2020	**104,245**	**$ 767**	**(23)**	**$ —**	**$ 1,951**	**$ (404)**	**$ —**	**$ 2,314**
Restricted stock issued	13	—						—
Issued under director and stock plans	134	3						3
Share-based compensation expense		4						4
Reissued for ESPP			23	—				—
Net income					45			45
Translation adjustment, net of tax						36		36
Pension and postretirement adjustments, net of tax						1		1
Balance at August 1, 2020	**104,392**	**$ 774**	**—**	**$ —**	**$ 1,996**	**$ (367)**	**$ —**	**$ 2,403**

Twenty-six weeks ended (shares in thousands, amounts in millions)	Additional Paid-In Capital & Common Stock Shares	Additional Paid-In Capital & Common Stock Amount	Treasury Stock Shares	Treasury Stock Amount	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling interests	Total Shareholders' Equity
Balance at January 30, 2021	**103,693**	**$ 779**	**(74)**	**$ (3)**	**$ 2,326**	**$ (331)**	**$ 5**	**$ 2,776**
Restricted stock issued	479	—						—
Issued under director and stock plans	344	11						11
Share based compensation expense		16						16
Shares of common stock used to satisfy tax withholding obligations			(195)	(11)				(11)
Share repurchases			(746)	(41)				(41)
Reissued for ESPP		(7)	301	14				7
Net income					632			632
Cash dividends declared on common stock ($0.40 per share)					(42)			(42)
Translation adjustment, net of tax						(10)		(10)
Pension and postretirement adjustments, net of tax						3		3
Balance at July 31, 2021	**104,516**	**$ 799**	**(714)**	**$ (41)**	**$ 2,916**	**$ (338)**	**$ 5**	**$ 3,341**
Balance at February 1, 2020	**104,188**	**$ 764**	**—**	**$ —**	**$ 2,103**	**$ (394)**	**$ —**	**$ 2,473**
Restricted stock issued	67	—						—
Issued under director and stock plans	137	3						3
Share-based compensation expense		7						7
Shares of common stock used to satisfy tax withholding obligations			(23)	—				—
Reissued for ESPP			23	—				—
Net loss					(65)			(65)
Cash dividends declared on common stock ($0.40 per share)					(42)			(42)
Translation adjustment, net of tax						20		20
Change in cash flow hedges, net of tax						3		3
Pension and postretirement adjustments, net of tax						4		4
Balance at August 1, 2020	**104,392**	**$ 774**	**—**	**$ —**	**$ 1,996**	**$ (367)**	**$ —**	**$ 2,403**

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

FOOT LOCKER, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

($ in millions)	Twenty-six weeks ended July 31, 2021		Twenty-six weeks ended August 1, 2020	
From operating activities:				
Net income (loss)	**$**	**632**	$	(65)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Non-cash impairment and other charges		**45**		31
Non-cash gains		**(314)**		—
Depreciation and amortization		**93**		88
Deferred income taxes		**67**		22
Share-based compensation expense		**16**		7
Change in assets and liabilities:				
Merchandise inventories		**(163)**		12
Accounts payable		**139**		291
Accrued and other liabilities		**(12)**		142
Insurance receivable for inventory loss		**8**		—
Other, net		**(109)**		78
Net cash provided by operating activities		**402**		606
From investing activities:				
Capital expenditures		**(87)**		(83)
Minority investments		**(78)**		(8)
Proceeds from sale of property		**3**		—
Insurance proceeds related to loss on property and equipment		**3**		—
Net cash used in investing activities		**(159)**		(91)
From financing activities:				
Dividends paid on common stock		**(42)**		(42)
Purchase of treasury shares		**(41)**		—
Proceeds from exercise of stock options		**10**		—
Treasury stock reissued under employee stock plan		**7**		—
Shares of common stock repurchased to satisfy tax withholding obligations		**(11)**		—
Payment of obligations under finance leases		**(1)**		—
Payment of revolving credit agreement costs		**(1)**		(4)
Proceeds from common stock issued under employee stock plan		**—**		2
Proceeds from the revolving credit facility		**—**		330
Repayment of the revolving credit facility		**—**		(330)
Net cash used in financing activities		**(79)**		(44)
Effect of exchange rate fluctuations on cash, cash equivalents, and restricted cash		**(1)**		(3)
Net change in cash, cash equivalents, and restricted cash		**163**		468
Cash, cash equivalents, and restricted cash at beginning of year		**1,718**		942
Cash, cash equivalents, and restricted cash at end of period	**$**	**1,881**	$	1,410
Cash paid during the year:				
Interest	**$**	**6**	$	7
Income taxes	**$**	**229**	$	11
Non-cash investing activities:				
Cash paid for amounts included in measurement of lease liabilities	**$**	**358**	$	279
Right-of-use assets obtained in exchange for operating lease obligations	**$**	**171**	$	135
Assets obtained in exchange for finance lease obligations	**$**	**4**	$	4

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

NOTES TO THE UNAUDITED 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 presented. As used in these Notes to the Unaudited Condensed Consolidated Financial Statements the terms "Foot Locker," "Company," "we," "our," and "us" refer to Foot Locker, Inc. and its consolidated subsidiaries.

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires us to make estimates and assumptions that affect the amounts reported in the accompanying Unaudited Condensed Consolidated Financial Statements and these Notes and related disclosures. 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 results of operations for the period ended July 31, 2021 are not necessarily indicative of the results to be expected for the full fiscal year due to the continued uncertainty of general economic conditions that may affect us for the remainder of 2021. Specifically, the ongoing pandemic ("COVID-19") including the dissemination and adoption of COVID-19 vaccines and their effectiveness against COVID-19 and its evolving strains, some of which may be more transmissible or virulent than the initial strain or additional widespread resurgences in COVID-19 infections, including evolving safety protocols including requirements for proof of vaccination, are significant uncertainties. COVID-19, as well as port delays, may affect our sales, traffic to our stores, our distribution capabilities, and distribution capabilities of our suppliers.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Notes to Consolidated Financial Statements contained in our Form 10-K for the year ended January 30, 2021, as filed with the U.S. Securities and Exchange Commission on March 25, 2021.

There were no significant changes to the policies disclosed in Note 1, *Summary of Significant Accounting Policies* of our Annual Report on Form 10-K for the year ended January 30, 2021.

Recent Accounting Pronouncements

Recently issued accounting pronouncements did not, or are not believed by management to, have a material effect on our present or future consolidated financial statements.

2. Revenue

The table below presents sales disaggregated based upon sales channel. Sales are attributable to the channel in which the sales transaction is initiated.

	Thirteen weeks ended		**Twenty-six weeks ended**	
($ in millions)	**July 31, 2021**	**August 1, 2020**	**July 31, 2021**	**August 1, 2020**
Sales by Channel				
Stores	**$ 1,817**	$ 1,388	**$ 3,437**	$ 2,202
Direct-to-customers	**458**	689	**991**	1,051
Total sales	**$ 2,275**	$ 2,077	**$ 4,428**	$ 3,253

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	Thirteen weeks ended		Twenty-six weeks ended	
($ in millions)	July 31, 2021	August 1, 2020	July 31, 2021	August 1, 2020
Sales by Geography				
United States	**$ 1,623**	$ 1,529	**$ 3,336**	$ 2,440
International	**652**	548	**1,092**	813
Total sales	**$ 2,275**	$ 2,077	**$ 4,428**	$ 3,253

Contract Liabilities

We sell gift cards, which do not have expiration dates. Revenue from gift card sales is recorded when the gift cards are redeemed by customers. Breakage income is recognized as revenue in proportion to the pattern of rights exercised by the customer. The table below presents the activity of our gift card liability balance:

($ in millions)	July 31, 2021	August 1, 2020
Gift card liability at beginning of year	**$ 41**	$ 35
Redemptions	**(122)**	(37)
Breakage recognized in sales	**(9)**	(3)
Activations	**128**	36
Gift card liability	**$ 38**	$ 31

We elected not to disclose the information about remaining performance obligations since the amount of gift cards redeemed after 12 months is not significant.

3. Segment Information

We have integrated all available shopping channels including stores, websites, apps, social channels, 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 generally 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.

We evaluate performance based on several factors, primarily the banner's financial results, referred to as division profit. Division profit reflects income before income taxes, impairment and other charges, corporate expense, non-operating income, and net interest expense.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Thirteen weeks ended		Twenty-six weeks ended	
($ in millions)	**July 31, 2021**	**August 1, 2020**	**July 31, 2021**	**August 1, 2020**
Sales	**$ 2,275**	$ 2,077	**$ 4,428**	$ 3,253
Operating Results				
Division profit	**332**	125	**$ 647**	$ 46
Less: Impairment and other charges (1)	**36**	38	**40**	54
Less: Corporate expense (2)	**32**	18	**61**	28
Income (loss) from operations	**264**	69	**546**	(36)
Interest expense, net	**(2)**	(2)	**(4)**	(3)
Other income, net	**325**	3	**329**	4
Income (loss) before income taxes	**$ 587**	$ 70	**$ 871**	$ (35)

(1) During the twenty-six weeks ended July 31, 2021, we recorded pre-tax charges as detailed in Note 4, *Impairment and Other Charges*.

(2) Corporate expense consists of unallocated selling, general and administrative expenses, as well as depreciation and amortization related to our corporate headquarters, centrally managed departments, unallocated insurance and benefit programs, certain foreign exchange transaction gains and losses, and other items.

4. Impairment and Other Charges

	Thirteen weeks ended		Twenty-six weeks ended	
($ in millions)	**July 31, 2021**	**August 1, 2020**	**July 31, 2021**	**August 1, 2020**
Impairment of long-lived assets and right-of-use assets	**$ 39**	$ —	**$ 39**	$ 15
Lease termination costs	**4**	—	**4**	—
Impairment of investments	**—**	—	**2**	—
Reorganization costs	**—**	3	**2**	3
(Insurance recovery)/ losses related to social unrest	**(7)**	18	**(7)**	18
Runners Point shut down	**—**	16	**—**	16
Pension litigation related charges	**—**	1	**—**	2
Total impairment and other charges	**$ 36**	$ 38	**$ 40**	$ 54

During the thirteen weeks ended July 31, 2021, we conducted an impairment review of certain Footaction stores as a result of the Company's decision to convert many of the stores to other existing banner concepts and close the remaining stores, either through natural lease expiration or early termination. We evaluated the long-lived assets, including the right-of-use assets and recorded non-cash charges of $39 million to write down store fixtures, leasehold improvements, and right-of-use assets for approximately 60 locations. Additionally, we recorded charges of $4 million primarily in other lease-related termination costs.

Partially offsetting these charges was $11 million of additional insurance recovery related to the prior year social unrest losses of $18 million. We recorded $7 million of the insurance recovery within impairment and other charges as it relates to the book value of losses recorded in 2020, with $4 million recorded in other income. We are continuing to work with our insurers to determine if additional incurred losses under our property insurance policy will be covered; however, we do not expect that future recoveries will be significant.

During the first quarter of 2021, we recorded an impairment charge of $2 million related to the underperformance of one of our minority investments. Additionally, in connection with the reorganization of certain support functions, we recorded severance charges of $2 million.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Due to the COVID-19 pandemic and its effect on our actual and projected results, during the first quarter of 2020 we determined that a triggering event occurred for certain underperforming stores operating in Europe and, therefore, we conducted an impairment review. We evaluated the long-lived assets, including the right-of-use assets, of 70 stores and recorded non-cash charges of $15 million to write down store fixtures, leasehold improvements, and right-of-use assets.

In May 2020, we made the strategic decision to shut down our Runners Point business and to consolidate our Sidestep support staff into our other operations in Europe. Also, as part of the next phase of the Champs Sports and Eastbay strategic initiative, we restructured positions and aligned several functions across the banners and planned to consolidate certain Eastbay operations from Wausau, Wisconsin into the Champs Sports headquarters in Bradenton, Florida. We recorded charges of $16 million related to the shutdown of the Runners Point business and $3 million related to the reorganization associated with Eastbay.

We recorded charges of $1 million and $2 million for the thirteen and twenty-six weeks ended August 1, 2020, respectively, related to administrative expenses in connection with the pension plan reformation.

5. Cash, Cash Equivalents, and Restricted Cash

The table below 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:

($ in millions)		July 31, 2021		August 1, 2020
Cash and cash equivalents	**$**	**1,845**	$	1,373
Restricted cash included in other current assets		**7**		7
Restricted cash included in other non-current assets		**29**		30
Cash, cash equivalents, and restricted cash	**$**	**1,881**	$	1,410

Amounts included in restricted cash primarily relate to amounts held in escrow in connection with various leasing arrangements in Europe and deposits held in insurance trusts to satisfy the requirement to collateralize part of the self-insured workers' compensation and liability claims.

6. Goodwill

We review goodwill for impairment annually during the first quarter of each fiscal year, or more frequently if impairment indicators arise. The review of impairment consists of either using a qualitative approach to determine whether it is more likely than not that the fair value of the assets is less than their respective carrying values or a one-step quantitative impairment test.

The results of the first quarter analysis did not result in an impairment since 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:

	July 31, 2021			August 1, 2020		
($ in millions)	Gross value	Accum. amort.	Net value	Gross value	Accum. amort.	Net value
Amortized intangible assets: (1)						
Lease acquisition costs	**$ 116**	**$ (112)**	**$ 4**	$ 119	$ (113)	$ 6
Trademarks / trade names	**20**	**(17)**	**3**	20	(16)	4
	$ 136	**$ (129)**	**$ 7**	$ 139	$ (129)	$ 10
Indefinite life intangible assets: (1)						
Trademarks / trade names			**$ 9**			$ 9
Other intangible assets, net			**$ 16**			$ 19

(1) The change in the ending balances also reflects the effect of foreign currency fluctuations due primarily to 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 2021 did not result in the recognition of impairment.

Amortization expense recorded is as follows:

	Thirteen weeks ended		Twenty-six weeks ended	
($ in millions)	July 31, 2021	August 1, 2020	July 31, 2021	August 1, 2020
Amortization expense	**$ 1**	$ 1	**$ 2**	$ 2

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

($ in millions)	
Remainder of 2021	$ 1
2022	3
2023	1
2024	1
2025	1

8. Revolving Credit Facility

On May 19, 2021, we entered into an amendment to the 2020 Credit Agreement (“Amended Credit Agreement”). The amendment provides for, among other things, (i) reducing the interest rates and commitment fees applicable to the loans and commitments, respectively, as described below, and (ii) reducing the “floor” applicable. The amendment provides that the interest rate applicable to loans drawn under the credit facility will be equal to, at our option, either a base rate, determined by reference to the federal funds rate, plus a margin of 0.25 percent to 0.75 percent per annum, or a Eurodollar rate, determined by reference to LIBOR, plus a margin of 1.25 percent to 1.75 percent per annum, in each case, depending on availability under the Amended Credit Agreement. In addition, we will pay a commitment fee of 0.25 percent per annum on the unused portion of the commitments under the Amended Credit Agreement.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

9. Accumulated Other Comprehensive Loss

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

($ in millions)	July 31, 2021	August 1, 2020	January 30, 2021
Foreign currency translation adjustments	**$ (74)**	$ (84)	$ (64)
Cash flow hedges	**(1)**	—	(1)
Unrecognized pension cost and postretirement benefit	**(263)**	(283)	(266)
	$ (338)	$ (367)	$ (331)

The changes in AOCL for the twenty-six weeks ended July 31, 2021 were as follows:

($ in millions)	Foreign Currency Translation Adjustments	Cash Flow Hedges	Items Related to Pension and Postretirement Benefits	Total
Balance as of January 30, 2021	$ (64)	$ (1)	$ (266)	$ (331)
OCI before reclassification	(10)	—	(1)	(11)
Amortization of pension actuarial loss, net of tax	—	—	4	4
Other comprehensive income	(10)	—	3	(7)
Balance as of July 31, 2021	**$ (74)**	**$ (1)**	**$ (263)**	**$ (338)**

Reclassifications from AOCL for the twenty-six weeks ended July 31, 2021 were as follows:

($ in millions)	
Amortization of actuarial loss:	
Pension benefits	**$ 5**
Income tax benefit	**(1)**
Total, net of tax	**$ 4**

10. Fair Value Measurements

Our financial assets are recorded at fair value, using a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The three levels of inputs used to measure fair value are categorized as follows:

Level 1 – Quoted prices for identical instruments in active markets.

Level 2 – Observable inputs other than quoted prices included within Level 1, including 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.

During the second quarter of 2021, we invested $68 million to acquire a common stock minority stake in a public entity, Retailors, Ltd, which is traded on the Tel Aviv stock exchange. Our investment was at a discount to the initial public offering price. This investment is classified as a Level 1 instrument since the fair value is readily available in an active market. The fair value of the auction rate security, classified as available-for-sale, is determined by using quoted prices for similar instruments in active markets and accordingly is classified as a Level 2 instrument.

Our derivative financial instruments are valued using market-based inputs to valuation models. These valuation models require a variety of inputs, including contractual terms, market prices, yield curves, and measures of volatility and, therefore, are classified as Level 2 instruments.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

($ in millions)	**As of July 31, 2021**			**As of August 1, 2020**		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Assets						
Minority investment in common stock	92	—	—	—	—	—
Available-for-sale security	—	7	—	—	7	—
Foreign exchange forward contracts	—	1	—	—	1	—
Total Assets	**$ 92**	**$ 8**	**$ —**	$ —	$ 8	$ —
Liabilities						
Foreign exchange forward contracts	—	2	—	—	4	—
Total Liabilities	**$ —**	**$ 2**	**$ —**	$ —	$ 4	$ —

There were no transfers into or out of Level 1, Level 2, or Level 3 assets and liabilities for any of the periods presented.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Assets and liabilities recognized or disclosed at fair value on the consolidated financial statements on a nonrecurring basis include items such as property, plant and equipment, operating lease right-of-use assets, goodwill, other intangible assets, and minority investments that are not accounted for under the equity method of accounting. These assets are measured using Level 3 inputs, if determined to be impaired.

Minority investments measured using the fair value measurement alternative had a carrying value of $612 million and $137 million as of July 31, 2021 and August 1, 2020, respectively. During the second quarter of 2021, we recorded a $290 million increase in the fair value of our minority investment in GOAT. GOAT received additional funding at a higher valuation than the investment amount previously on our balance sheet. During the first quarter of 2021, we recorded a non-cash charge of $2 million related to the write-down of one of our minority investments, resulting in $13 million of cumulative impairments.

Long-Term Debt

The fair value of long-term debt is determined by using model-derived valuations in which all significant inputs or significant value drivers are observable in active markets and, therefore, are classified as Level 2.

The carrying value and estimated fair value of long-term debt were as follows:

($ in millions)	July 31, 2021	August 1, 2020
Carrying value	**$ 99**	$ 121
Fair value	**$ 102**	$ 129

The carrying values of cash and cash equivalents, and other current receivables and payables approximate their fair value.

11. Earnings Per Share

We account for earnings per share ("EPS") using the treasury stock method. Basic EPS is computed by dividing net income (loss) for the period by the weighted-average number of common shares outstanding at the end of the period. Diluted earnings per share reflects the weighted-average number of common shares outstanding during the period used in the basic EPS computation plus dilutive common stock equivalents. The computation of diluted earnings per share does not assume conversion, exercise, or contingent issuance of securities that would have an anti-dilutive effect on EPS.

The computation of basic and diluted EPS is as follows:

	Thirteen weeks ended		Twenty-six weeks ended	
(in millions, except per share data)	July 31, 2021	August 1, 2020	July 31, 2021	August 1, 2020
Net income (loss)	**$ 430**	$ 45	**$ 632**	$ (65)
Weighted-average common shares outstanding	**103.8**	104.5	**103.7**	104.4
Dilutive effect of potential common shares	**1.4**	0.6	**1.4**	—
Weighted-average common shares outstanding assuming dilution	**105.2**	105.1	**105.1**	104.4
Earnings (loss) per share - basic	**$ 4.14**	$ 0.43	**$ 6.10**	$ (0.62)
Earnings (loss) per share - diluted	**$ 4.09**	$ 0.43	**$ 6.02**	$ (0.62)
Anti-dilutive share-based awards excluded from diluted calculation	**1.5**	2.7	**1.7**	2.7

Performance stock units related to our long-term incentive programs of 0.6 million and 0.5 million have been excluded from diluted weighted-average shares for the periods ended July 31, 2021 and August 1, 2020, respectively. The issuance of these shares are contingent on our performance metrics as compared to the pre-established performance goals, which have not been achieved.

12. Pension

The components of net periodic pension benefit expense are presented in the table below. Service cost is recognized as part of SG&A expense, while the other components are recognized as part of Other income, net.

($ in millions)	Thirteen weeks ended July 31, 2021	Thirteen weeks ended August 1, 2020	Twenty-six weeks ended July 31, 2021	Twenty-six weeks ended August 1, 2020
Service cost	**$ 4**	$ 3	**$ 8**	$ 7
Interest cost	**5**	6	**9**	11
Expected return on plan assets	**(8)**	(10)	**(17)**	(19)
Amortization of net loss	**2**	3	**5**	6
Net benefit expense	**$ 3**	$ 2	**$ 5**	$ 5

13. Share-Based Compensation

Total compensation expense, included in SG&A, and the associated tax benefits recognized related to our share-based compensation plans, were as follows:

($ in millions)	Thirteen weeks ended July 31, 2021	Thirteen weeks ended August 1, 2020	Twenty-six weeks ended July 31, 2021	Twenty-six weeks ended August 1, 2020
Options and shares purchased under the stock purchase plan	**$ 2**	$ 2	**$ 4**	$ 4
Restricted stock units and performance stock units	**6**	2	**12**	3
Total share-based compensation expense	**$ 8**	$ 4	**$ 16**	$ 7
Tax benefit recognized	**$ 1**	$ 1	**$ 2**	$ 1

Valuation Model and Assumptions

We use the Black-Scholes option-pricing model to estimate the fair value of share-based awards. The Black-Scholes option-pricing model incorporates various and subjective assumptions, including expected term and expected volatility.

The table below shows assumptions used to compute share-based compensation expense for awards granted during the twenty-six weeks ended July 31, 2021 and August 1, 2020:

	Stock Option Plans July 31, 2021	Stock Option Plans August 1, 2020	Stock Purchase Plan July 31, 2021	Stock Purchase Plan August 1, 2020
Weighted-average risk free rate of interest	**0.9 %**	0.6 %	**0.2 %**	2.0 %
Expected volatility	**47 %**	42 %	**48 %**	48 %
Weighted-average expected award life (in years)	**5.5**	5.5	**1.0**	1.0
Dividend yield	**1.5 %**	4.9 %	**5.0 %**	4.0 %
Weighted-average fair value	**$ 20.22**	$ 5.03	**$ 7.84**	$ 15.03

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The information in the table below provides activity under our stock option plans for the twenty-six weeks ended July 31, 2021:

	Number of Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
	(in thousands)	(in years)	(per share)
Options outstanding at the beginning of the year	3,540		$ 47.17
Granted	183		53.82
Exercised	(302)		33.31
Expired or cancelled	(122)		52.43
Options outstanding at July 31, 2021	3,299	5.5	$ 48.61
Options exercisable at July 31, 2021	2,497	4.4	$ 53.74
Options available for future grant at July 31, 2021	5,491		

The total fair value of options vested during the twenty-six weeks ended July 31, 2021 and August 1, 2020 was $4 million and $5 million, respectively. The cash received and related tax benefits realized from option exercises during the twenty-six weeks ended July 31, 2021 was $10 million and $2 million, respectively. The cash received and related tax benefits realized from option exercises during the twenty-six weeks ended August 1, 2020 were not significant.

The total intrinsic value of options exercised (the difference between the market price of our common stock on the exercise date and the price paid by the optionee to exercise the option) is presented below:

	Thirteen weeks ended		Twenty-six weeks ended	
($ in millions)	**July 31, 2021**	**August 1, 2020**	**July 31, 2021**	**August 1, 2020**
Exercised	**$ 5**	$ —	**$ 8**	$ —

The aggregate intrinsic value for stock options outstanding, and outstanding and exercisable (the difference between our closing stock price on the last trading day of the period and the exercise price of the options, multiplied by the number of in-the-money stock options) is presented below:

	Twenty-six weeks ended	
($ in millions)	**July 31, 2021**	**August 1, 2020**
Outstanding	**$ 40**	$ 10
Outstanding and exercisable	**$ 20**	$ 1

As of July 31, 2021, there was $4 million of total unrecognized compensation cost related to nonvested stock options which is expected to be recognized over a remaining weighted-average period of 1.6 years.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The table below summarizes information about stock options outstanding and exercisable at July 31, 2021:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	**Number Outstanding**	**Weighted-Average Remaining Contractual Life**	**Weighted-Average Exercise Price**	**Number Exercisable**	**Weighted-Average Exercise Price**
	(in thousands, except prices per share and contractual life)				
$21.60 - $34.24	981	6.9	$ 23.49	444	$ 25.76
$34.75 - $52.13	504	4.5	44.41	496	44.42
$52.82 - $79.23	1,814	4.9	63.36	1,557	64.69
	3,299	5.5	$ 48.61	2,497	$ 53.74

Restricted Stock Units and Performance Stock Units

Restricted stock units ("RSU") are awarded to certain officers, key employees of the Company, and nonemployee directors. Additionally, performance stock units ("PSU") are awarded to certain officers and key employees. Each RSU and PSU represents the right to receive one share of our common stock provided that the applicable performance and vesting conditions are satisfied.

Generally, RSU awards fully vest after the passage of time, typically three years for employees and one year for nonemployee directors, provided there is continued service with the Company until the vesting date, subject to the terms of the award. PSU awards are earned only after the attainment of performance goals in connection with the relevant performance period and vest after an additional one-year period. No dividends are paid or accumulated on any RSU or PSU awards. Compensation expense is recognized using the market value at the date of grant and is amortized over the vesting period. RSU and PSU activity for the twenty-six weeks ended July 31, 2021 is summarized as follows:

	Number of Shares	**Weighted-Average Remaining Contractual Life**	**Weighted-Average Grant Date Fair Value**
	(in thousands)	(in years)	(per share)
Nonvested at beginning of year	1,348		$ 38.48
Granted	424		54.20
Vested	(503)		43.81
Performance adjustment (1)	240		
Forfeited	(39)		34.47
Nonvested at July 31, 2021	1,470	2.0	$ 43.54
Aggregate value ($ in millions)	$ 64		

(1) This represents adjustments made to PSUs and reflect changes in estimates based upon our current performance against predefined financial targets.

The total value of awards that vested during the twenty-six weeks ended July 31, 2021 and August 1, 2020 was $22 million and $4 million, respectively. As of July 31, 2021, there was $45 million of total unrecognized compensation cost related to nonvested awards.

14. Legal Proceedings

Legal proceedings pending against the Company or its consolidated subsidiaries consist of ordinary, routine litigation, including administrative proceedings, incidental to the business of the Company or businesses that have been sold or discontinued by the Company in past years. These legal proceedings include commercial, intellectual property, customer, environmental, and employment-related claims.

We do not believe that the outcome of any such legal proceedings pending against the Company or its consolidated subsidiaries, as described above, would have a material adverse effect on our consolidated financial position, liquidity, or results of operations, taken as a whole, based upon current knowledge and taking into consideration current accruals. Litigation is inherently unpredictable. Judgments could be rendered or settlements made that could adversely affect the Company's operating results or cash flows in a particular period.

15. Subsequent Events

Acquisition of WSS

On August 1, 2021, we signed a definitive agreement to acquire Eurostar, Inc., a Delaware corporation ("WSS"). WSS is a U.S.-based athletic footwear and apparel retailer, which operates 93 stores primarily on the West Coast. Following the transaction, WSS will maintain its name, operating as a new banner in our portfolio. The aggregate consideration in the transaction will consist of $750 million in cash, subject to customary adjustments to reflect changes in net working capital, cash, indebtedness, and transaction expenses. The transaction will be funded with available cash. The transaction is currently expected to close in September 2021, subject to the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the satisfaction of customary closing conditions.

Acquisition of atmos

On August 2, 2021, we announced that we entered into a definitive agreement to acquire Text Trading Company, K.K. ("atmos"), which owns and licenses the atmos brand, a digitally led, premium, global retailer headquartered in Japan. atmos is a culturally connected brand featuring premium sneakers and apparel, an exclusive in-house label, collaborative relationships with leading vendors in the sneaker ecosystem, experiential stores, and a robust omni-channel platform. The purchase price is $360 million and additional contingent consideration of up to $111 million based on achieving certain revenue growth and EBITDA performance targets. The transaction will be funded with the Company's available cash. atmos will maintain its name, operating as a new banner in our portfolio. The transaction is currently expected to close early in the fourth quarter of 2021, subject to the satisfaction of customary closing conditions.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Business Overview

Foot Locker, Inc. leads the celebration of sneaker and youth culture around the globe through a portfolio of banners including Foot Locker, Lady Foot Locker, Kids Foot Locker, Champs Sports, Eastbay, Footaction, and Sidestep. Foot Locker, Inc. and its subsidiaries hereafter are referred to as the "Company," "we," "our," or "us." We operate primarily mall-based stores, as well as stores in high-traffic urban retail areas and high streets, in 27 countries including the United States, Canada, Europe, Australia, New Zealand, and Asia. Our purpose is to inspire and empower youth culture around the world, by fueling a shared passion for self-expression and creating unrivaled experiences at the heart of the global sneaker community.

We use our omni-channel capabilities to bridge the digital world and physical stores, including order-in-store, buy online and pickup-in-store, and buy online and ship-from-store, as well as e-commerce. We operate websites and mobile apps aligned with the names of our store banners (including: footlocker.com, kidsfootlocker.com, champssports.com, footaction.com, footlocker.ca, footlocker.eu and related e-commerce sites in the various European countries that we operate, footlocker.com.au, footlocker.nz, sidestep-shoes.de, side-stepshoes.nl, footlocker.hk, footlocker.sg, footlocker.mo, footlocker.my, and footlockerkorea.kr). These sites offer some of the largest online product selections and provide a seamless link between e-commerce and physical stores. We also operate the websites for eastbay.com and eastbayteamsales.com.

Store Count

At July 31, 2021, we operated 2,911 stores as compared with 2,998 and 3,100 stores at January 30, 2021 and August 1, 2020, respectively.

Franchise Operations

A total of 134 franchised stores were operating at July 31, 2021, as compared with 127 and 138 stores at January 30, 2021 and August 1, 2020, respectively. Revenue from franchised stores was not significant for any of the periods presented. These stores are not included in the operating store count above.

COVID-19 Update

In March 2020, the World Health Organization designated COVID-19 a pandemic. COVID-19 had a significant effect on overall economic conditions in the various geographic areas in which we have operations. Our top priority is to protect our team members and their families, our customers, and our operations. We have made best efforts to comply with all precautionary measures as directed by health authorities and local, state, and national governments.

Beginning in March 2020 and through the remainder of the first quarter of 2020, we temporarily closed substantially all of our retail store locations in response to governmental orders related to the COVID-19 outbreak. Throughout 2020, the pandemic and the shelter in place orders negatively affected customer traffic into the stores that were operating, and certain stores required additional closures during the remainder of the year. For the second quarter of this year, we operated approximately 94 percent of the possible operating days, as compared with 70 percent in the second quarter of 2020. Our stores in Canada, Sidestep stores and our stores operating in Australia were adversely affected during the second quarter. Our distribution centers have been operating relatively unaffected during this time. In order to mitigate the effects of the temporary closures, we have been operating in-store fulfillment activities while stores were closed to customers. Given the dynamic nature of these circumstances, the duration of business disruption, reduced customer traffic in our stores, and potential effects related to evolving safety protocols and requirements for proof of vaccination, the related financial effect cannot be reasonably estimated at this time but may materially affect our business for the remainder of 2021.

Reconciliation of Non-GAAP Measures

In addition to reporting our financial results in accordance with U.S. generally accepted accounting principles (“GAAP”), we report certain financial results that differ from what is reported under GAAP. We have presented certain financial measures identified as non-GAAP, such as sales changes excluding foreign currency fluctuations, adjusted income before income taxes, adjusted net income, and adjusted diluted earnings per share.

We present certain amounts as excluding the effects of foreign currency fluctuations, which are also considered non-GAAP measures. Where amounts are expressed as excluding the effects of foreign currency fluctuations, such changes are determined by translating all amounts in both years using the prior-year average foreign exchange rates. Presenting amounts on a constant currency basis is useful to investors because it enables them to better understand the changes in our business that are not related to currency movements.

These non-GAAP measures are presented because we believe they assist investors in comparing our performance across reporting periods on a consistent basis by excluding items that we do not believe are indicative of our core business or affect comparability. In addition, these non-GAAP measures are useful in assessing our progress in achieving our long-term financial objectives. We estimate the tax effect of all non-GAAP adjustments by applying a marginal tax rate to each of the respective items. The income tax items represent the discrete amount that affected the period. The non-GAAP financial information is provided in addition to, and not as an alternative to, our reported results prepared in accordance with GAAP. Presented below is a reconciliation of GAAP and non-GAAP.

	Thirteen weeks ended		Twenty-six weeks ended	
($ in millions, except per share amounts)	July 31, 2021	August 1, 2020	July 31, 2021	August 1, 2020
Pre-tax income:				
Income (loss) before income taxes	**$ 587**	$ 70	**$ 871**	$ (35)
Pre-tax amounts excluded from GAAP:				
Impairment and other charges	**36**	38	**40**	54
Other income, net	**(303)**	—	**(303)**	—
Adjusted income before income taxes (non-GAAP)	**$ 320**	$ 108	**$ 608**	$ 19
After-tax income:				
Net income (loss)	**$ 430**	$ 45	**$ 632**	(65)
After-tax adjustments excluded from GAAP:				
Impairment and other charges, net of income tax benefit of $9, $6, $10, and $9 million, respectively	**27**	32	**30**	45
Other income, net - net of income tax expense of $79, $-, $79, and $- million, respectively	**(224)**	—	**(224)**	—
Tax charge related to revaluation of certain intellectual property rights	**—**	(2)	—	25
Adjusted net income (non-GAAP)	**$ 233**	$ 75	**$ 438**	5
Earnings per share:				
Diluted earnings (loss) per share	**$ 4.09**	$ 0.43	**$ 6.02**	(0.62)
Diluted EPS amounts excluded from GAAP:				
Impairment and other charges	**0.25**	0.30	**0.28**	0.43
Other income, net	**(2.13)**	—	**(2.13)**	—
Tax charge related to revaluation of certain intellectual property rights	**—**	(0.02)	—	0.24
Adjusted diluted earnings per share (non-GAAP)	**$ 2.21**	$ 0.71	**$ 4.17**	0.05

During the thirteen weeks and twenty-six weeks ended July 31, 2021, we recorded pre-tax charges of $36 million and $40 million, respectively, classified as Impairment and Other. See the *Impairment and Other Charges* section for further information.

During the thirteen and twenty-six weeks ended July 31, 2021, we recorded non-cash gains of $303 million, or $224 million after-tax, classified in other income, net. One of our minority investments, GOAT, which is measured using the fair value measurement alternative, received additional funding at a higher valuation resulting in a $290 million fair value adjustment. Additionally, during the quarter, we acquired a minority stake in a public entity at an initial discount of $9 million. Due to the infrequent and nonrecurring nature of the gain and discount, respectively, the income was removed to arrive to non-GAAP earnings. Finally, other income includes $4 million related to our insurance recovery from the 2020 social unrest, which is the amount by which the recovery exceeded the book value losses previously recorded.

Related to the non-GAAP adjustments for income taxes, during the first half of 2020 we recorded a $25 million tax charge related to the revaluation of certain intellectual property rights, pursuant to a non-U.S. advance pricing agreement.

Segment Reporting

We have determined that we have three operating segments, North America, EMEA, and Asia Pacific. Our North America operating segment includes the results of the following banners operating in the U.S. and Canada: Foot Locker, Kids Foot Locker, Lady Foot Locker, Champs Sports, and Footaction, including each of their related e-commerce businesses, as well as our Eastbay business that includes internet, catalog, and team sales. Our EMEA operating segment includes the results of the following banners operating in Europe: Foot Locker, Sidestep, and Kids Foot Locker, including each of their related e-commerce businesses. Our Asia Pacific operating segment includes the results of Foot Locker and Kids Foot Locker and the related e-commerce businesses operating in Australia, New Zealand, and Asia. We have further aggregated these operating segments into one reportable segment based upon their shared customer base and similar economic characteristics.

Results of Operations

We evaluate performance based on several factors, primarily the banner's financial results, referred to as division profit. Division profit reflects income before income taxes, impairment and other charges, corporate expenses, non-operating income, and net interest (expense) income. The table below summarizes our results:

	Thirteen weeks ended		Twenty-six weeks ended	
($ in millions)	**July 31, 2021**	**August 1, 2020**	**July 31, 2021**	**August 1, 2020**
Sales	**$ 2,275**	$ 2,077	**$ 4,428**	$ 3,253
Operating Results				
Division profit	**332**	125	**647**	46
Less: Impairment and other charges (1)	**36**	38	**40**	54
Less: Corporate expense (2)	**32**	18	**61**	28
Income (loss) from operations	**264**	69	**546**	(36)
Interest expense, net	**(2)**	(2)	**(4)**	(3)
Other income, net (3)	**325**	3	**329**	4
Income before income taxes	**$ 587**	$ 70	**$ 871**	$ (35)

(1) See the *Impairment and Other Charges* section for further information.

(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, franchise royalty income, changes in fair value of minority interests measured at fair value or using the fair value measurement alternative, changes in the market value of our available-for-sale security, our share of earnings or losses related to our equity method investments, and net benefit expense related to our pension and postretirement programs excluding the service cost component. See the *Other income, net* section for further information.

Sales

All references to comparable-store sales for a given period relate to sales of stores that were open at the period-end and had been open for more than one year. The computation of consolidated comparable sales also includes our direct-to-customers channel. Stores opened or closed during the period are not included in the comparable-store base; however, stores closed temporarily for relocation or remodeling are included. Stores that were temporarily closed due to the COVID-19 pandemic are also included in the computation of comparable-store sales. Computations exclude the effect of foreign currency fluctuations.

The information shown below represents certain sales metrics by sales channel:

	Thirteen weeks ended		Twenty-six weeks ended	
($ in millions)	July 31, 2021	August 1, 2020	July 31, 2021	August 1, 2020
Stores				
Sales	**$ 1,817**	$ 1,388	**$ 3,437**	$ 2,202
$ Change	**$ 429**		**$ 1,235**	$
% Change	**30.9 %**		**56.1 %**	
% of total sales	**79.9 %**	66.8 %	**77.6 %**	67.7 %
Comparable sales increase (decrease)	**28.4 %**	(7.6)%	**54.0 %**	(32.1)%
Direct-to-customers				
Sales	**$ 458**	$ 689	**$ 991**	$ 1,051
$ Change	**$ (231)**		**$ (60)**	$
% Change	**(33.5)%**		**(5.7)%**	
% of total sales	**20.1 %**	33.2	**22.4 %**	32.3 %
Comparable sales (decrease) increase	**(35.1)%**	172.8	**(8.2)%**	84.3 %

For the thirteen weeks ended July 31, 2021, total sales increased by $198 million, or 9.5 percent, to $2,275 million, as compared with the corresponding prior-year period. For the twenty-six weeks ended July 31, 2021, total sales increased by $1,175 million, or 36.1 percent, to $4,428 million, as compared with the corresponding prior-year period. Excluding the effect of foreign currency fluctuations, total sales increased by $151 million, or 7.3 percent, for the thirteen weeks ended July 31, 2021 and increased by $1,085 million, or 33.4 percent, for the twenty-six weeks ended July 31, 2021.

These comparisons were significantly affected by the closures necessitated by the COVID-19 pandemic, most of the stores were closed during the first quarter of 2020 when our stores were only open for 48 percent of the total available operating days. Our stores were open for 70 percent of the operating days last year as compared with 94 percent this year. By geography, our European and Canadian operations continued to be negatively affected by the required closures during the current year. Europe and Canada were open for 87 percent and 68 percent of the total available operating days, respectively. Our Asia Pacific operating segment was affected in the quarter and operated 81 percent of the available days.

While sales increased significantly compared with the prior-year periods, we also exceeded sales for the corresponding periods of 2019. Excluding the effect of foreign exchange rate fluctuations, as compared with the 2019, sales increased by 25.8 percent and by 13.1 percent for the quarter and year-to-date periods, respectively.

Total comparable sales represented an increase of 6.9 percent for the quarter and an increase of 33.4 percent for the year-to-date period. Our stores channel generated significant increases for both the quarter and year-to-date periods, which was a result of the temporary closure of our stores across all of our banners around the world during the first half of 2020. Partially offset by a decline in our direct-to-customer channel as shopping navigated back to physical locations. While our digital penetration declined as compared with 2020, our penetration is higher than our historical levels. We continue to leverage our technology platforms to improve the digital experience. Our significant improvement also reflected increased consumer demand for exciting and new product offerings and the effect of government stimulus.

For the combined channels, sales excluding foreign currency fluctuations, for the second quarter of 2021 for the operating segments of North America and EMEA increased by 5.1 percent and by 14.9 percent, respectively, as compared with the corresponding prior-year period. For the year-to-date period, North America increased by 35.4 percent and EMEA increased by 20.3 percent as compared to the prior year. Asia Pacific generated significant increases in the quarter and year-to-date periods from both continued success in Australia and New Zealand, coupled with growth in Asia, based on expansion in that region. All our operating segments generated significant sales increases as compared to the first half of last year, which was negatively affected by the temporary store closures necessitated by the pandemic. Our North American operating segment's sales strength was across all banners, except for Footaction as we are winding down that business. Sales growth in North America was led by Kids Foot Locker and Champs Sports. Within EMEA, sales from the Foot Locker banner increased, offset by a decline in sales due to the Runners Point shutdown. Sidestep's sales for both the quarter and year-to-date periods were relatively unchanged, despite the continued pressure from COVID-19 closures.

From a product perspective for the combined channels, the increase for both the quarter and year-to-date periods was across all families of business - footwear, apparel, and accessories. Sales of children's footwear led the sales by wearer segment for the second quarter, while sales of men's footwear declined partially from lower sales due to the wind-down of Footaction and the shutdown of Runners Point. For the year-to-date period, all wearer segments within the footwear category experienced increases, with the largest increases coming from sales of men's and children's basketball footwear styles. Apparel sales benefited from increases in sales across all wearer segments, led by sales of men's and kids' apparel. The continued athleisure and fitness trend, coupled with exciting product offerings from our suppliers, drove the significant increase in sales as compared with last year.

Gross Margin

	Thirteen weeks ended		Twenty-six weeks ended	
	July 31, 2021	**August 1, 2020**	**July 31, 2021**	**August 1, 2020**
Gross margin rate	**35.1 %**	25.9 %	**34.9 %**	24.9 %
Basis point increase in the gross margin rate	**920**		**1,000**	
Components of the change-				
Merchandise margin rate improvement	**870**		**640**	
Lower occupancy and buyers' compensation expense rate	**50**		**360**	

Gross margin is calculated as sales minus cost of sales. Cost of sales includes: the cost of merchandise, freight, distribution costs including related depreciation expense, shipping and handling, occupancy and buyers' compensation. Occupancy costs include rent (including fixed common area maintenance charges and other fixed non-lease components), real estate taxes, general maintenance, and utilities.

The gross margin rate increased for both the thirteen weeks and twenty-six weeks ended July 31, 2021, as compared with the corresponding prior-year period, reflecting a higher merchandise margin rate since we were significantly less promotional than a year ago, coupled with leverage on the relatively fixed costs.

Comparing the gross margin rate to the thirteen weeks ended August 3, 2019, gross margin improved by 500 basis points, reflecting a 170-basis point improvement in the merchandise margin rate and a 330-basis point improvement on occupancy and buyers' compensation rate. Comparing the gross margin rate to the twenty-six weeks ended August 3, 2019, gross margin improved by 320 basis points, reflecting a 130-basis point improvement in the merchandise margin rate and a 190 basis point improvement on occupancy and buyers' compensation rate.

The occupancy rate was positively affected for both the thirteen weeks and twenty-six weeks ended July 31, 2021, as compared with corresponding prior-year period, reflecting an increase in sales and COVID-19 related rent abatements. Due to completed lease negotiations, we were able to record $6 million and $11 million of rent savings due to rent abatements during the thirteen and twenty-six weeks ended July 31, 2021, respectively, as compared to rent abatements of $6 million in both of the corresponding prior-year periods ended August 1, 2020. We record rent abatements in rent expense when the negotiations are completed and the leases are modified.

Selling, General and Administrative Expenses (SG&A)

	Thirteen weeks ended		Twenty-six weeks ended	
($ in millions)	**July 31, 2021**	**August 1, 2020**	**July 31, 2021**	**August 1, 2020**
SG&A	**$ 450**	$ 387	**$ 868**	$ 703
$ Change	**$ 63**		**$ 165**	
% Change	**16.3 %**		**23.5 %**	
SG&A as a percentage of sales	**19.8 %**	18.6 %	**19.6 %**	21.6 %

SG&A increased by $63 million and $165 million for the thirteen weeks and the twenty-six weeks ended July 31, 2021, respectively, as compared with the corresponding prior-year period. Excluding the effect of foreign currency fluctuations, SG&A increased by $53 million and $142 million for the thirteen weeks and the twenty-six weeks ended July 31, 2021, respectively, as compared with the corresponding prior-year periods.

SG&A, as a percentage of sales, as compared with the corresponding prior-year periods was affected by the higher sales in the current year and the effect of prior-year COVID-19 related matters. SG&A for the thirteen weeks ended July 31, 2021 and August 1, 2020 included payroll subsidies from local governments of $4 million and $17 million, respectively. On a year-to-date basis, the subsidies were $14 million this year as compared with $57 million last year. The higher prior year amounts related to the fact that we continued to pay our employees throughout most of the first quarter of 2020 despite the temporary store closures. The thirteen weeks and twenty-six weeks ended July 31, 2021 included $2 million and $4 million, respectively, for personal protective equipment expense, a decrease of $4 million and $2 million, respectively, as compared with the corresponding prior-year periods.

Incentive compensation expense was $8 million lower in the second quarter of 2021; however, it was $12 million higher for the twenty-six weeks of the current year, as compared with the corresponding prior-year periods. For the current year we are outperforming the targeted results. Also, the prior year was affected by the fact that the bonus plan was not established until the second quarter, thus that quarter incurred higher expense.

Excluding the above-mentioned items and the effect of foreign currency fluctuations, SG&A increased by $52 million or 14.1 percent and $89 million or 12.3 percent primarily representing variable expenses associated with higher sales.

Depreciation and Amortization

	Thirteen weeks ended		Twenty-six weeks ended	
($ in millions)	July 31, 2021	August 1, 2020	July 31, 2021	August 1, 2020
Depreciation and amortization	**$ 48**	$ 44	**$ 93**	$ 88
$ Change	**$ 4**		**$ 5**	
% Change	**9.1 %**		**5.7 %**	

Depreciation and amortization expense increased by $4 million and $5 million for the thirteen weeks and twenty-six weeks ended July 31, 2021, respectively, as compared with the corresponding prior-year periods. Excluding the effect of foreign currency fluctuations, depreciation and amortization increased by $3 million for both the quarter and year-to-date periods as compared with the corresponding prior-year periods. The increase was primarily related to the acceleration of depreciation and amortization associated with the Footaction closures.

Impairment and Other Charges

During the second quarter of 2021, we conducted an impairment review of certain Footaction stores as a result of the Company's decision to convert many of the stores to other existing banner concepts and close the remaining stores, either through natural lease expiration or early termination. We evaluated the long-lived assets, including the right-of-use assets and recorded non-cash charges of $39 million to write down store fixtures, leasehold improvements, and right-of-use assets for approximately 60 locations. Additionally, we recorded charges of $4 million primarily in other lease-related termination costs.

Partially offsetting these charges was $11 million of additional insurance recovery related to the prior year social unrest losses, $7 million of which is classified in impairment and other charges as it relates to the book value of losses recorded in 2020, with $4 million recorded in other income.

Also included in the year-to-date period of 2021 is a $2 million charge related to one of our minority investments and charges of $2 million primarily related to severance costs in connection with the reorganization of certain support functions.

Corporate Expense

	Thirteen weeks ended		Twenty-six weeks ended	
($ in millions)	July 31, 2021	August 1, 2020	July 31, 2021	August 1, 2020
Corporate expense	**$ 32**	$ 18	**$ 61**	$ 28
$ Change	**$ 14**		**$ 33**	

Corporate expense consists of unallocated general and administrative expenses as well as depreciation and amortization related to our corporate headquarters, centrally managed departments, unallocated insurance and benefit programs, certain foreign exchange transaction gains and losses, and other items. Depreciation and amortization included in corporate expense was $9 million and $6 million for the thirteen weeks ended July 31, 2021 and August 1, 2020, respectively, and $16 million and $11 million for the twenty-six weeks ended July 31, 2021 and August 1, 2020, respectively.

The allocation of corporate expense to the operating divisions is adjusted annually based upon an internal study; accordingly, the allocation increased by $5 million and $10 million for the thirteen and twenty-six weeks ended July 31, 2021, respectively, thus reducing corporate expense. Excluding the corporate allocation change, corporate expense increased by $19 million and $43 million for the thirteen and twenty-six weeks ended July 31, 2021, respectively, as compared with the prior-year periods. The increases for both periods were primarily due to higher information technology and support expenses and an increase in professional fees.

Additionally, we recorded higher incentive compensation expense in the twenty-six weeks ended July 31, 2021, as compared to the prior-year period.

Operating Results

	Thirteen weeks ended		Twenty-six weeks ended	
($ in millions)	**July 31, 2021**	**August 1, 2020**	**July 31, 2021**	**August 1, 2020**
Division profit	**$ 332**	$ 125	**$ 647**	$ 46
Division profit margin	**14.6 %**	6.0 %	**14.6 %**	1.4 %

Division profit margin as a percentage of sales increased to 14.6 percent of sales for both the thirteen and twenty-six weeks ended July 31, 2021, with both sales channels generating significant improvements in both gross margin and expense leverage. The results for prior year were negatively affected by the pandemic.

Interest Expense, Net

	Thirteen weeks ended		Twenty-six weeks ended	
($ in millions)	**July 31, 2021**	**August 1, 2020**	**July 31, 2021**	**August 1, 2020**
Interest expense	**$ (3)**	$ (4)	**$ (6)**	$ (7)
Interest income	**1**	2	**2**	4
Interest expense, net	**$ (2)**	$ (2)	**$ (4)**	$ (3)

We recorded $2 million and $4 million of net interest expense for the thirteen and twenty-six weeks ended July 31, 2021, respectively, as compared with net interest expense of $2 million and $3 million for the corresponding prior-year periods. Interest expense decreased due to the lack of borrowings on the revolving credit facility, as compared to 2020, as well as the retirement of $20 million of our 8.5 percent debentures in the fourth quarter of 2020. Additionally, interest income decreased primarily as a result of lower average interest rates on our cash and cash equivalents.

Other Income, Net

	Thirteen weeks ended		Twenty-six weeks ended	
($ in millions)	**July 31, 2021**	**August 1, 2020**	**July 31, 2021**	**August 1, 2020**
Other income, net	**$ 325**	$ 3	**$ 329**	$ **4**

Other income includes non-operating items, including franchise royalty income, changes in fair value of minority investments measured at fair value or using the fair value measurement alternative, changes in the market value of our available-for-sale security, our share of earnings or losses related to our equity method investments, and net benefit (expense) related to our pension and postretirement programs excluding the service cost component.

The change during the thirteen weeks ended July 31, 2021 was primarily due to a $290 million increase in the fair value of our minority investment in GOAT, which is measured using the fair value measurement alternative. GOAT received additional funding at a higher valuation than the investment amount previously on our balance sheet. Additionally, the Company invested $68 million to acquire a common stock minority stake in a public entity, which is re-measured to fair value each quarter. We recognized income of $24 million for this investment representing a discount in the initial purchase price of $9 million and appreciation in the value of stock of $15 million. Other income for thirteen weeks ended July 31, 2021 also includes $4 million related to our insurance recovery from the 2020 social unrest, which is the amount by which the recovery exceeded the book value of losses previously recorded.

Income Taxes

($ in millions)	Thirteen weeks ended July 31, 2021	Thirteen weeks ended August 1, 2020	Twenty-six weeks ended July 31, 2021	Twenty-six weeks ended August 1, 2020
Provision for income taxes	**$ 157**	$ 25	**$ 239**	$ 30
Effective tax rate	**26.8 %**	35.4 %	**27.4 %**	(85.5)%

Our current year interim provision for income taxes was measured using an estimated annual effective tax rate, which represented a blend of federal, state, and foreign taxes and included the effect of certain nondeductible items as well as changes in our mix of domestic and foreign earnings or losses, adjusted for discrete items that occur within the periods presented.

We regularly assess the adequacy of our provisions for income tax contingencies in accordance with applicable authoritative guidance on accounting for income taxes. As a result, we may adjust the reserves for unrecognized tax benefits considering new facts and developments, such as changes to interpretations of relevant tax law, assessments from taxing authorities, settlements with taxing authorities, and lapses of statutes of limitation. The changes in tax reserves were not significant for any of the periods presented.

During the thirteen weeks and twenty-six weeks ended July 31, 2021, we recorded $1 million and $2 million, respectively, related to excess tax benefits from share-based compensation.

The tax rate for the twenty-six weeks ended August 1, 2020 was negatively affected by a $27 million tax charge related to the revaluation of certain intellectual property rights pursuant to a non-U.S. advance pricing agreement. During the thirteen weeks ended August 1, 2020, due to an improved financial outlook, we reduced this tax charge recognized in the first quarter of 2020 by $2 million. Partially offsetting the intellectual property rights charge, we recognized a $2 million tax benefit for the reversal of a withholding tax accrual that was no longer required in the year-to-date period of 2020.

Excluding the above-mentioned discrete items, the effective tax rates for the current year periods declined, as compared with the corresponding prior-year periods, primarily due to the change in the mix of domestic and foreign earnings and losses. Further, our higher domestic income reduced the effect of non-deductible items.

We currently expect our full-year tax rate to approximate 29 percent excluding the effect of any nonrecurring items that may occur. The actual tax rate will vary depending on the level and mix of income earned in the various jurisdictions.

Liquidity and Capital Resources

Liquidity

Our primary source of liquidity has been cash flow from operations, while the principal uses of cash have been to fund inventory and other working capital requirements; finance capital expenditures related to store openings, store remodelings, internet and mobile sites, information systems, and other support facilities; make retirement plan contributions, quarterly dividend payments, and interest payments; and fund other cash requirements to support the development of our short-term and long-term operating strategies. We generally finance real estate with operating leases. We believe our cash, cash equivalents, future cash flow from operations, and amounts available under our credit agreement will be adequate to fund these requirements.

The Company may also repurchase its common stock or seek to retire or purchase outstanding debt through open market purchases, privately negotiated transactions, or otherwise. Share repurchases and retirement of debt, if any, will depend on prevailing market conditions, liquidity requirements, contractual restrictions, strategic considerations, and other factors. The amounts involved may be material. As of July 31, 2021, approximately $789 million remained available under our current $1.2 billion share repurchase program.

In January 2022, we will repay the $98 million principal outstanding of our 8.5 percent debentures.

Any material adverse change in customer demand, fashion trends, competitive market forces, or customer acceptance of our merchandise mix, retail locations and websites, uncertainties related to the effect of competitive products and pricing, our reliance on a few key suppliers for a significant portion of our merchandise purchases and risks associated with global product sourcing, economic conditions worldwide, the effects of currency fluctuations, continued uncertainties caused by the COVID-19 pandemic, as well as other factors listed under the headings “Disclosure Regarding Forward-Looking Statements,” and “Risk Factors” could affect our ability to continue to fund our needs from business operations.

Operating Activities

($ in millions)	Twenty-six weeks ended July 31, 2021	Twenty-six weeks ended August 1, 2020
Net cash provided by operating activities	**$ 402**	$ 606
$ Change	**$ (204)**	

Operating activities reflects net income (loss) adjusted for non-cash items and working capital changes. Adjustments to net income (loss) for non-cash items include gains, impairment charges, other charges, depreciation and amortization, deferred income taxes, and share-based compensation expense.

The decrease in cash provided by operating activities reflected higher merchandise purchases and payments on accounts payable and accrued and other liabilities, partially offset by higher net income, as compared with the same period last year. The increased merchandise purchases were necessitated by our higher sales results and that we ended the prior year with low levels due to supply chain disruptions. As of July 31, 2021, we have withheld approximately $24 million of lease and lease-related payments as we continue to negotiate rent deferrals or abatements with our landlords for the period that our stores were closed due to the COVID-19 pandemic.

During the fourth quarter of 2020, we were notified by our property insurance carrier that it had approved, and in 2021 we collected, a $10 million partial settlement on our claim for losses sustained in connection with the social unrest of 2020. During the second quarter of 2021, we received an additional $11 million from our property insurance carrier for the remainder of the claim. The $21 million received during 2021 was classified in the statement of cash flows on the basis of the related insurance coverage. Accordingly, $18 million was related to inventory and other operating costs and was therefore classified in operating activities. The balance of $3 million was related to losses sustained on our property and equipment and was classified in investing activities. We are continuing to work with our insurers to determine if additional incurred losses under our property insurance policy will be covered; however, we do not expect that future recoveries will be significant.

Investing Activities

($ in millions)	Twenty-six weeks ended July 31, 2021		Twenty-six weeks ended August 1, 2020
Net cash used in investing activities	**$**	**(159)**	$ (91)
$ Change	**$**	**(68)**	

For the twenty-six weeks ended July 31, 2021, net cash used in investing activities increased by $68 million primarily due to a $70 million increase in minority investments. During the second quarter, we invested $68 million in a public entity and $6 million in various limited partner venture capital funds managed by Black fund managers, who are committed to advancing diverse-led business as part of our Leading in Education and Economic Development initiative.

Capital expenditures increased by $4 million to $87 million, as compared with the corresponding prior-year period. Our full-year capital spending is expected to be $250 million. The revised forecast includes $158 million related to the remodeling or relocation of approximately 165 existing stores and the opening of approximately 120 new stores, as well as $92 million for the development of information systems, websites, and infrastructure, including supply chain initiatives. The capital expenditures forecast includes the anticipated costs related to the conversion of the Footaction stores to our other banners, although the timing of these expenditures is being evaluated.

In connection with the shutdown of the Runners Point banner completed last year, during the first quarter of 2021, we sold the former headquarters resulting in proceeds of $3 million.

As noted above, related to our insurance claim from the social unrest in 2020, we received proceeds of $3 million related to property and equipment loss.

Financing Activities

($ in millions)	Twenty-six weeks ended July 31, 2021		Twenty-six weeks ended August 1, 2020
Net cash used in financing activities	**$**	**(79)**	$ (44)
$ Change	**$**	**(35)**	

Cash used in financing activities consisted primarily of our return to shareholders initiatives, including our share repurchase program and cash dividends, as follows:

($ in millions)	Twenty-six weeks ended July 31, 2021		Twenty-six weeks ended August 1, 2020
Share repurchases	**$**	**41**	$ —
Dividends paid on common stock		**42**	42
Total returned to shareholders	$	**83**	$ 42

During the twenty-six weeks ended July 31, 2021, we repurchased 745,544 shares of common stock for $41 million under our share repurchase program, whereas in the prior year we did not repurchase shares. We also declared and paid $42 million in dividends representing quarterly rates of $0.20 per share during the twenty-six weeks ended July 31, 2021. On August 16, 2021, our Board of Directors declared a quarterly dividend of $0.30 per share to be paid on October 29, 2021 representing an increase of $0.10 per share or 50 percent. In the prior-year period, we paid $42 million of dividends in the first quarter of 2020 and suspended the second quarter dividend as a result of the COVID-19 pandemic.

We paid $11 million to satisfy tax withholding obligations relating to the vesting of share-based equity awards during the twenty-six weeks ended July 31, 2021. Partially offsetting this amount were proceeds received in connection with employee stock programs of $17 million.

In the first quarter of 2020, we borrowed $330 million of our then-existing revolving credit facility, which was repaid in full during the second quarter of 2020.

Critical Accounting Policies and Estimates

There have been no significant changes to our critical accounting policies and estimates from the information provided in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” included in the Annual Report on Form 10-K for the fiscal year ended January 30, 2021.

Recent Accounting Pronouncements

Descriptions of the recently issued and adopted accounting principles are included in Item 1. “Financial Statements” in Note 1, *Summary of Significant Accounting Policies*, to the Condensed Consolidated Financial Statements.

Item 4. Controls and Procedures

During the quarter, the Company’s management performed an evaluation, under the supervision and with the participation of the Company’s Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), of the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)). Based on that evaluation, the Company’s CEO and CFO concluded that the Company’s disclosure controls and procedures were effective to ensure that information relating to the Company that is required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC rules and forms, and is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

We are currently migrating our e-commerce order management system. All North American e-commerce apps and certain European countries were live on the new system as of July 31, 2021. In connection with this implementation and resulting business process changes, we may make changes to the design and operation of our internal control over financial reporting.

During the quarter ended July 31, 2021, there were no changes in the Company’s internal control over financial reporting, other than the implementation of the new e-commerce order management system (as defined in Rules 13a-15(f) of the Exchange Act), that materially affected or are reasonably likely to affect the Company’s internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Information regarding the Company’s legal proceedings is contained in the *Legal Proceedings* note under Item 1. “Financial Statements” in Part I.

Item 1A. Risk Factors

In addition to the other information discussed in this report, the factors described in Part I, Item 1A. “Risk Factors” in our 2020 Annual Report on Form 10-K filed with the SEC on March 25, 2021 should be considered as they could materially affect our business, financial condition, or future results.

There have not been any significant changes with respect to the risks described in our 2020 Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The table below provides information with respect to shares of the Company’s common stock for the thirteen weeks ended July 31, 2021:

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)		Dollar Value of Shares that may yet be Purchased Under the Program (2)
May 2 to May 29, 2021	25,000	$	63.44	25,000	$	795,460,301
May 30 to June 3, 2021	100,000		62.65	100,000		789,195,238
June 4 to July 31, 2021	3,460		57.73	—		789,195,238
	128,460	$	62.67	125,000		

(1) These columns reflect shares acquired in satisfaction of the tax withholding obligations of holders of restricted stock unit awards, which vested during the quarter. The calculation of the average price paid per share includes all fees, commissions, and other costs associated with the repurchase of such shares.

(2) The current $1.2 billion share repurchase program extends through January 2022.

Item 6. Exhibits

Exhibit No.	Description
2.1	Stock Purchase Agreement, dated August 1, 2021, among Foot Locker Retail, Inc., the Sellers, Eurostar, Inc., and the Seller Representatives (incorporated by reference to Exhibit 2.1 to the Form 8-K filed by Foot Locker, Inc. on August 2, 2021).
15*	Accountants' Acknowledgement.
31.1*	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32**	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99*	Report of Independent Registered Public Accounting Firm.
101.INS*	Inline XBRL Instance Document.
101.SCH*	Inline XBRL Taxonomy Extension Schema.
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase.
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase.
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase.
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase.
104*	Cover Page Interactive Data File (embedded within the Inline XBRL datafile).

* Filed herewith.
** Furnished herewith.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: September 9, 2021	FOOT LOCKER, INC.
	/s/ Andrew E. Page
	ANDREW E. PAGE Executive Vice President and Chief Financial Officer

ACCOUNTANT'S ACKNOWLEDGEMENT

The Board of Directors of
Foot Locker, Inc.:

We acknowledge our awareness of the use therein of our report dated September 9, 2021 related to our review of interim financial information in the following Registration Statements:

- Form S-8 No. 33-10783
- Form S-8 No. 33-91888
- Form S-8 No. 33-91886
- Form S-8 No. 33-97832
- Form S-8 No. 333-07215
- Form S-8 No. 333-21131
- Form S-8 No. 333-62425
- Form S-8 No. 333-33120
- Form S-8 No. 333-41056
- Form S-8 No. 333-41058
- Form S-8 No. 333-74688
- Form S-8 No. 333-99829
- Form S-8 No. 333-111222
- Form S-8 No. 333-121515
- Form S-8 No. 333-144044
- Form S-8 No. 333-149803
- Form S-3 No. 33-43334
- Form S-3 No. 33-86300
- Form S-3 No. 333-64930
- Form S-8 No. 333-167066
- Form S-8 No. 333-171523
- Form S-8 No. 333-190680
- Form S-8 No. 333-196899

Pursuant to Rule 436 under the Securities Act of 1933 (the Act), such report is not considered part of a registration statement prepared or certified by an independent registered public accounting firm, or a report prepared or certified by an independent registered public accounting firm within the meaning of Sections 7 and 11 of the Act.

/s/ KPMG LLP
New York, New York
September 9, 2021

Exhibit 31.1

CERTIFICATION

I, Richard A. Johnson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Foot Locker, Inc. (the “Registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and

5. The Registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the Audit Committee of the Registrant’s Board of Directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

September 9, 2021

/s/ Richard A. Johnson
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Andrew E. Page, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Foot Locker, Inc. (the “Registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and

5. The Registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the Audit Committee of the Registrant’s Board of Directors (or persons performing the equivalent functions):

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

September 9, 2021

/s/ Andrew E. Page
Chief Financial Officer

FOOT LOCKER, INC.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Foot Locker, Inc. (the “Registrant”) for the quarterly period ended July 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Richard A. Johnson, as Chief Executive Officer of the Registrant and Andrew E. Page, as Chief Financial Officer of the Registrant, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Dated: September 9, 2021

/s/ Richard A. Johnson
Richard A. Johnson
Chief Executive Officer

/s/ Andrew E. Page
Andrew E. Page
Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the company specifically incorporates it by reference.

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
Foot Locker, Inc.:

Results of Review of Interim Financial Information

We have reviewed the condensed consolidated balance sheets of Foot Locker, Inc. and subsidiaries (the Company) as of July 31, 2021 and August 1, 2020, the related condensed consolidated statements of operations, comprehensive income (loss), and changes in shareholders' equity for the thirteen and twenty-six week periods ended July 31, 2021 and August 1, 2020, the related condensed consolidated statements of cash flows for the twenty-six week periods ended July 31, 2021 and August 1, 2020, and the related notes (collectively, the consolidated interim financial information). Based on our reviews, we are not aware of any material modifications that should be made to the consolidated interim financial information for it to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheet of the Company as of January 30, 2021, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated March 25, 2021, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of January 30, 2021, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Basis for Review Results

This consolidated interim financial information is the responsibility of the Company's management. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our reviews in accordance with the standards of the PCAOB. A review of consolidated interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

/s/ KPMG LLP
New York, New York
September 9, 2021