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

## FORM 10-Q

(Mark One)

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended: August 3, 2019

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 | FL | 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 9, 2019: 107,039,179

**FOOT LOCKER, INC.**
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## PART I - FINANCIAL INFORMATION

### *Item 1. Financial Statements*

**FOOT LOCKER, INC.**
**CONDENSED CONSOLIDATED BALANCE SHEETS**
($ in millions, except shares)

| | August 3, 2019 (Unaudited) | August 4, 2018 (Unaudited) | February 2, 2019 * |
|---|---|---|---|
| | | ($ in millions) | |
| **ASSETS** | | | |
| Current assets: | | | |
| Cash and cash equivalents | **$ 939** | $ 950 | $ 891 |
| Merchandise inventories | **1,227** | 1,254 | 1,269 |
| Other current assets | **280** | 320 | 358 |
| | **2,446** | 2,524 | 2,518 |
| Property and equipment, net | **796** | 842 | 836 |
| Operating lease right-of-use assets | **2,976** | — | — |
| Deferred taxes | **92** | 108 | 87 |
| Goodwill | **156** | 158 | 157 |
| Other intangible assets, net | **21** | 41 | 24 |
| Other assets | **233** | 159 | 198 |
| | **$ 6,720** | $ 3,832 | $ 3,820 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| Current liabilities: | | | |
| Accounts payable | **$ 420** | $ 408 | $ 387 |
| Accrued and other liabilities | **312** | 313 | 377 |
| Current portion of lease obligations | **497** | — | — |
| | **1,229** | 721 | 764 |
| Long-term debt | **123** | 124 | 124 |
| Long-term lease obligations | **2,750** | — | — |
| Other liabilities | **106** | 505 | 426 |
| Total liabilities | **4,208** | 1,350 | 1,314 |
| Shareholders' equity: | | | |
| Common stock and paid-in capital: 113,199,460; 121,497,470; and 112,932,605 shares outstanding, respectively | **825** | 857 | 809 |
| Retained earnings | **2,226** | 2,232 | 2,104 |
| Accumulated other comprehensive loss | **(384)** | (340) | (370) |
| Less: Treasury stock at cost: 3,578,395; 5,869,122; and 711,024 shares, respectively | **(155)** | (267) | (37) |
| Total shareholders' equity | **2,512** | 2,482 | 2,506 |
| | **$ 6,720** | $ 3,832 | $ 3,820 |

* The balance sheet at February 2, 2019 has been derived from the previously reported audited financial statements at that date, but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in Foot Locker, Inc.'s Annual Report on Form 10-K for the year ended February 2, 2019.

See Accompanying Notes to Condensed Consolidated Financial Statements.

**FOOT LOCKER, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**
(Unaudited)
(in millions, except per share amounts)

| | Thirteen weeks ended | | Twenty-six weeks ended | |
|---|---|---|---|---|
| | **August 3, 2019** | **August 4, 2018** | **August 3, 2019** | **August 4, 2018** |
| | (in millions, expect per share amounts) | | | |
| **Sales** | **$ 1,774** | $ 1,782 | **$ 3,852** | $ 3,807 |
| | | | | |
| Cost of sales | **1,240** | 1,243 | **2,629** | 2,602 |
| Selling, general and administrative expenses | **393** | 380 | **809** | 765 |
| Depreciation and amortization | **46** | 44 | **90** | 89 |
| Litigation and other charges | **14** | 3 | **15** | 15 |
| Income from operations | **81** | 112 | **309** | 336 |
| | | | | |
| Interest income, net | **2** | 1 | **6** | 3 |
| Other income | **2** | 2 | **4** | 5 |
| Income before income taxes | **85** | 115 | **319** | 344 |
| Income tax expense | **25** | 27 | **87** | 91 |
| **Net income** | **$ 60** | $ 88 | **$ 232** | $ 253 |
| | | | | |
| Basic earnings per share | **$ 0.55** | $ 0.76 | **$ 2.09** | $ 2.15 |
| Weighted-average shares outstanding | **110.8** | 116.6 | **111.6** | 117.7 |
| | | | | |
| Diluted earnings per share | **$ 0.55** | $ 0.75 | **$ 2.08** | $ 2.14 |
| Weighted-average shares outstanding, assuming dilution | **111.1** | 117.1 | **112.1** | 118.1 |

See Accompanying Notes to Condensed Consolidated Financial Statements.

**FOOT LOCKER, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
(Unaudited)
($ in millions)

| | Thirteen weeks ended | | Twenty-six weeks ended | |
|---|---|---|---|---|
| | **August 3, 2019** | **August 4, 2018** | **August 3, 2019** | **August 4, 2018** |
| | | ($ in millions) | | |
| **Net income** | **$ 60** | $ 88 | **$ 232** | $ 253 |
| Other comprehensive income, net of income tax | | | | |
| *Foreign currency translation adjustment:* | | | | |
| Translation adjustment arising during the period, net of income tax (benefit) of $-, $1, $1, and $(7) million, respectively | **(6)** | (20) | **(21)** | (58) |
| *Cash flow hedges:* | | | | |
| Change in fair value of derivatives, net of income tax | **5** | — | **3** | 1 |
| *Pension and postretirement adjustments:* | | | | |
| Amortization of net actuarial gain/loss and prior service cost included in net periodic benefit costs, net of income tax expense of $-, $-, $1, and $1 million, respectively | **1** | 2 | **4** | 4 |
| Pension remeasurement and foreign currency fluctuations arising during the year, net of income tax benefit of $-, $3, $-, and $3, respectively. | **—** | (9) | **—** | (8) |
| **Comprehensive income** | **$ 60** | $ 61 | **$ 218** | $ 192 |

See Accompanying Notes to Condensed Consolidated Financial Statements.

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# FOOT LOCKER, INC.
## 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 | Total Shareholders' Equity |
|---|---|---|---|---|---|---|---|
| **Balance at May 4, 2019** | **113,161** | **$ 820** | **(774)** | **$ (41)** | **$ 2,207** | **$ (384)** | **$ 2,602** |
| Restricted stock issued | 16 | | | | | | — |
| Issued under director and stock plans | 23 | (1) | | | | | (1) |
| Share-based compensation expense | | 6 | | | | | 6 |
| Shares of common stock used to satisfy tax withholding obligations | | | (1) | — | | | — |
| Share repurchases | | | (2,900) | (120) | | | (120) |
| Reissued - Employee Stock Purchase Plan | | | 96 | 6 | | | 6 |
| Net income | | | | | 60 | | 60 |
| Cash dividends declared on common stock ($0.38 per share) | | | | | (41) | | (41) |
| Translation adjustment, net of tax | | | | | | (6) | (6) |
| Change in cash flow hedges, net of tax | | | | | | 5 | 5 |
| Pension and postretirement adjustments, net of tax | | | | | | 1 | 1 |
| **Balance at August 3, 2019** | **113,200** | **$ 825** | **(3,579)** | **$ (155)** | **$ 2,226** | **$ (384)** | **$ 2,512** |
| | | | | | | | |
| **Balance at May 5, 2018** | **121,342** | **$ 848** | **(4,081)** | **$ (176)** | **$ 2,184** | **$ (313)** | **$ 2,543** |
| Restricted stock issued | 13 | | | | | | — |
| Issued under director and stock plans | 142 | 6 | | | | | 6 |
| Share-based compensation expense | | 3 | | | | | 3 |
| Shares of common stock used to satisfy tax withholding obligations | | | (1) | | | | — |
| Share repurchases | | | (1,835) | (93) | | | (93) |
| Reissued - Employee Stock Purchase Plan | | | 48 | 2 | | | 2 |
| Net income | | | | | 88 | | 88 |
| Cash dividends declared on common stock ($0.345 per share) | | | | | (40) | | (40) |
| Translation adjustment, net of tax | | | | | | (20) | (20) |
| Pension and postretirement adjustments, net of tax | | | | | | (7) | (7) |
| **Balance at August 4, 2018** | **121,497** | **$ 857** | **(5,869)** | **$ (267)** | **$ 2,232** | **$ (340)** | **$ 2,482** |

| 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 | Total Shareholders' Equity |
|---|---|---|---|---|---|---|---|
| **Balance at February 2, 2019** | **112,933** | **809** | **(711)** | **(37)** | **2,104** | **(370)** | **2,506** |
| Restricted stock issued | 88 | | | | | | — |
| Issued under director and stock plans | 179 | 3 | | | | | 3 |
| Share-based compensation expense | | 13 | | | | | 13 |
| Shares of common stock used to satisfy tax withholding obligations | | | (32) | (2) | | | (2) |
| Share repurchases | | | (2,932) | (122) | | | (122) |
| Reissued - Employee Stock Purchase Plan | | | 96 | 6 | | | 6 |
| Net income | | | | | 232 | | 232 |
| Cash dividends declared on common stock | | | | | (84) | | (84) |
| Translation adjustment, net of tax | | | | | | (21) | (21) |
| Change in cash flow hedges, net of tax | | | | | | 3 | 3 |
| Pension and postretirement adjustments, net of tax | | | | | | 4 | 4 |
| Cumulative effect of the adoption of Topic 842 | | | | | (26) | | (26) |
| **Balance at August 3, 2019** | **113,200** | **$ 825** | **(3,579)** | **$ (155)** | **$ 2,226** | **$ (384)** | **$ 2,512** |
| | | | | | | | |
| **Balance at February 3, 2018** | **121,262** | **842** | **(1,433)** | **(63)** | **2,019** | **(279)** | **2,519** |
| Restricted stock issued | 89 | | | | | | — |
| Issued under director and stock plans | 146 | 6 | | | | | 6 |
| Share-based compensation expense | | 9 | | | | | 9 |
| Shares of common stock used to satisfy tax withholding obligations | | | (32) | (1) | | | (1) |
| Share repurchases | | | (4,452) | (205) | | | (205) |
| Reissued - Employee Stock Purchase Plan | | | 48 | 2 | | | 2 |
| Net income | | | | | 253 | | 253 |
| Cash dividends declared on common stock | | | | | (81) | | (81) |
| Translation adjustment, net of tax | | | | | | (58) | (58) |
| Change in cash flow hedges, net of tax | | | | | | 1 | 1 |
| Pension and postretirement adjustments, net of tax | | | | | | (4) | (4) |
| Cumulative effect of the adoption of ASU 2014-09 | | | | | 4 | | 4 |
| Cumulative effect of the adoption of ASU 2016-16 | | | | | 37 | | 37 |
| **Balance at August 4, 2018** | **121,497** | **$ 857** | **(5,869)** | **$ (267)** | **$ 2,232** | **$ (340)** | **$ 2,482** |

**FOOT LOCKER, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
(Unaudited)
($ in millions)

| | Twenty-six weeks ended | |
|---|---|---|
| | **August 3, 2019** | **August 4, 2018** |
| | ($ in millions) | |
| **From operating activities:** | | |
| Net income | **$ 232** | $ 253 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | **90** | 89 |
| Share-based compensation expense | **13** | 9 |
| Qualified pension plan contributions | **(55)** | (30) |
| Change in assets and liabilities: | | |
| Merchandise inventories | **32** | 3 |
| Accounts payable | **37** | 155 |
| Accrued and other liabilities | **(40)** | — |
| Pension litigation accrual | **—** | 15 |
| Class counsel fees paid in connection with pension litigation | **—** | (97) |
| Other, net | **19** | 30 |
| Net cash provided by operating activities | **328** | 427 |
| **From investing activities:** | | |
| Capital expenditures | **(81)** | (115) |
| Minority investments | **(45)** | — |
| Insurance proceeds related to loss on property and equipment | **—** | 2 |
| Net cash used in investing activities | **(126)** | (113) |
| **From financing activities:** | | |
| Purchase of treasury shares | **(122)** | (205) |
| Dividends paid on common stock | **(84)** | (81) |
| Issuance of common stock | **4** | — |
| Proceeds from exercise of stock options | **—** | 4 |
| Treasury stock reissued under employee stock plan | **3** | 2 |
| Shares of common stock repurchased to satisfy tax withholding obligations | **(2)** | (1) |
| Net cash used in financing activities | **(201)** | (281) |
| Effect of exchange rate fluctuations on cash, cash equivalents, and restricted cash | **(8)** | (25) |
| Net change in cash, cash equivalents, and restricted cash | **(7)** | 8 |
| Cash, cash equivalents, and restricted cash at beginning of year | **981** | 1,031 |
| **Cash, cash equivalents, and restricted cash at end of period** | **$ 974** | $ 1,039 |
| **Cash paid during the year:** | | |
| Interest | **$ 5** | $ 5 |
| Income taxes | **$ 111** | $ 129 |

See Accompanying Notes to Condensed Consolidated Financial Statements.

**FOOT LOCKER, INC.**
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

## 1. Summary of Significant Accounting Policies

*Basis of Presentation*

The accompanying condensed consolidated financial statements contained in this report are unaudited. In the opinion of management, the condensed consolidated financial statements include all normal, recurring adjustments necessary for a fair presentation of the results for the interim periods of the fiscal year ending February 1, 2020 and of the fiscal year ended February 2, 2019. Certain items included in these statements are based on management's estimates. Actual results may differ from those estimates. The results of operations for any interim period are not necessarily indicative of the results expected for the year. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Notes to Consolidated Financial Statements contained in Foot Locker, Inc.'s (the "Company") Form 10-K for the year ended February 2, 2019, as filed with the U.S. Securities and Exchange Commission (the "SEC") on April 2, 2019.

Other than the changes to the *Leases* policies as a result of the recently adopted accounting standards discussed below, 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 February 2, 2019.

*Recent Accounting Pronouncements*

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842).* This ASU requires lessees to recognize a lease liability, on a discounted basis, and a right-of-use asset for substantially all leases, as well as additional disclosures regarding leasing arrangements. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted improvements,* which provides an optional transition method of applying the new lease standard. Topic 842 can be applied using either a modified retrospective approach at the beginning of the earliest period presented, or as permitted by ASU 2018-11, at the beginning of the period in which it is adopted.

The Company adopted Topic 842 on February 3, 2019 (the "effective date") using the optional transition method, which applies Topic 842 at the beginning of the period in which it is adopted. Prior period amounts have not been adjusted in connection with the adoption of this standard. The Company elected the package of practical expedients under the new standard, which permits companies to not reassess lease classification, lease identification, or initial direct costs for existing or expired leases prior to the effective date. We have lease agreements with non-lease components that relate to the lease components. The Company elected the practical expedient to account for non-lease components and the lease components to which they relate, as a single lease component for all classes of underlying assets. Also, the Company elected to keep short-term leases with an initial term of twelve months or less off the balance sheet.

Upon adoption of this new standard, the Company recorded right-of-use assets and lease obligations on the Condensed Consolidated Balance Sheet for our operating leases of $3,148 million and $3,422 million, respectively, as of February 3, 2019. As part of adopting the standard, previously recognized liabilities for deferred rent and lease incentives were reclassified as a component of the right-of-use assets. Additionally upon adoption, we evaluated right-to-use assets for impairment and determined that approximately $29 million of impairment was required related to newly recognized right-of-use assets that would have been impaired in previous periods. This impairment of the right-to-use asset as of February 3, 2019 was recorded, net of related income tax effects, as a $26 million reduction of beginning retained earnings. The standard did not significantly affect our Condensed Consolidated Statements of Operations, Comprehensive Income, or Cash Flows.

Other recently issued accounting pronouncements did not, or are not believed by management to, have a material effect on the Company's present or future consolidated financial statements.

**FOOT LOCKER, INC.**
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

## 2. Revenue

Store revenue is recognized at the point of sale and includes merchandise, net of returns, and excludes taxes. Revenue from layaway sales is recognized when the customer receives the product, rather than when the initial deposit is paid. Revenue for merchandise that is shipped to our customers from our distribution centers and stores is recognized upon shipment date.

Total revenue recognized includes shipping and handling fees. We have determined that control of the promised good is passed to the customer upon shipment date since the customer has legal title, the rewards of ownership, and has paid for the merchandise as of the shipment date. Shipping and handling is accounted for as a fulfillment activity. The Company accrues the cost and recognized revenue for these activities upon shipment date.

Sales disaggregated based upon sales channel is presented below.

| | Thirteen weeks ended | | Twenty-six weeks ended | |
|---|---|---|---|---|
| | **August 3, 2019** | **August 4, 2018** | **August 3, 2019** | **August 4, 2018** |
| | ($ in millions) | | | |
| **Sales by Channel** | | | | |
| Stores | **$ 1,521** | $ 1,542 | **$ 3,279** | $ 3,285 |
| Direct-to-customers | **253** | 240 | **573** | 522 |
| Total sales | **$ 1,774** | $ 1,782 | **$ 3,852** | $ 3,807 |

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

| | Thirteen weeks ended | | Twenty-six weeks ended | |
|---|---|---|---|---|
| | **August 3, 2019** | **August 4, 2018** | **August 3, 2019** | **August 4, 2018** |
| | ($ in millions) | | | |
| **Sales by Geography** | | | | |
| United States | **$ 1,209** | $ 1,220 | **$ 2,761** | $ 2,721 |
| International | **565** | 562 | **1,091** | 1,086 |
| Total sales | **$ 1,774** | $ 1,782 | **$ 3,852** | $ 3,807 |

*Contract Liabilities*

The Company sells 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 reported as part of sales. The table below presents the activity of our gift card liability balance:

| | ($ in millions) |
|---|---|
| Balance at February 3, 2019 | $ 35 |
| Redemptions | (47) |
| Breakage recognized in sales | (3) |
| Activations | 43 |
| **Balance at August 3, 2019** | **$ 28** |

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

**FOOT LOCKER, INC.**
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

### 3. Segment Information

The Company has 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 primarily shipped to our customers through our distribution centers but may also be shipped from any store or a combination of our distribution centers and stores depending on the availability of particular items.

Our operating segments are identified according to how our business activities are managed and evaluated by our chief operating decision maker, our CEO. During 2018, the Company expanded into Asia and launched our digital channels across Singapore, Hong Kong, and Malaysia. During the first quarter of 2019, the Company changed its organizational and internal reporting structure in order to support an accelerated growth strategy for the region. We opened an Asian headquarters in Singapore and realigned our organization into three distinct geographic regions: Europe, Middle East and Africa ("EMEA"), Asia Pacific, and North America.

In light of these changes, the Company has re-evaluated its operating segments. The Company has determined that it has 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, Footaction, and SIX:02, 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, Runners Point, 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.

The Company evaluates performance based on several factors, of which the primary financial measure is the banner's financial results referred to as division profit. Division profit reflects income before income taxes, pension litigation charges, corporate expense, non-operating income, and net interest income.

The following table summarizes our results:

| | Thirteen weeks ended | | Twenty-six weeks ended | |
|---|---|---|---|---|
| | **August 3, 2019** | **August 4, 2018** | **August 3, 2019** | **August 4, 2018** |
| | | ($ in millions) | | |
| **Sales** | **$ 1,774** | $ 1,782 | **$ 3,852** | $ 3,807 |
| | | | | |
| **Operating Results** | | | | |
| Division profit | **115** | 131 | **365** | 378 |
| Less: Litigation and other charges (1) | **14** | 3 | **15** | 15 |
| Less: Corporate expense (2) | **20** | 16 | **41** | 27 |
| Income from operations | **81** | 112 | **309** | 336 |
| Interest income, net | **2** | 1 | **6** | 3 |
| Other income | **2** | 2 | **4** | 5 |
| Income before income taxes | **$ 85** | $ 115 | **$ 319** | $ 344 |

**FOOT LOCKER, INC.**
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(1) The Company recorded pre-tax charges of $1 million and $3 million for the thirteen weeks ended August 3, 2019 and August 4, 2018, respectively, related to a pension litigation matter and related plan reformation. For the twenty-six weeks ended August 3, 2019 and August 4, 2018, the Company recorded pre-tax charges of $2 million and $15 million, respectively. The charges in the current periods reflect professional fees in connection with the plan reformation. The prior year charges reflected adjustments to the value of the judgment and interest that continued to accrue, as required by the provisions of the required plan reformation.

For the thirteen weeks ended August 3, 2019, the Company incurred $13 million of lease termination costs related to the closure of certain of its SIX:02 locations.

(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.

## 4. Cash, Cash Equivalents, and Restricted Cash

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

| | **August 3, 2019** | August 4, 2018 | February 2, 2019 |
|---|---|---|---|
| | | ($ in millions) | |
| Cash and cash equivalents | **$ 939** | $ 950 | $ 891 |
| Restricted cash included in other current assets | **5** | 1 | 59 |
| Restricted cash included in other non-current assets | **30** | 88 | 31 |
| Cash, cash equivalents, and restricted cash | **$ 974** | $ 1,039 | $ 981 |

During 2017 in connection with the pension litigation matter, the Company deposited $150 million in a qualified settlement fund. At August 4, 2018, the amount remaining in the fund was $54 million and was classified as part of non-current assets. At February 2, 2019, the fund was classified as a current asset due to our intention to use it to contribute to the pension plan. During 2018 and in March 2019, the Company used substantially all of the fund to pay class counsel fees and to make a contribution to the pension plan.

Other 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 in order to satisfy the requirement to collateralize part of the self-insured workers' compensation and liability claims.

The Company has elected to present book overdrafts, representing checks issued but still outstanding in excess of bank balances, as part of accounts payable.

## 5. Goodwill

Annually during the first quarter, or more frequently if impairment indicators arise, the Company reviews goodwill and intangible assets with indefinite lives for impairment.

In light of the change in our organizational and internal reporting structure in the first quarter of 2019, we have reassessed our reporting units and have determined that the collective omni-channel banners in North America, EMEA, and Asia Pacific are the three reporting units at which goodwill is tested.

Accordingly, goodwill was re-allocated between the affected reporting units based on their relative fair values. As required, we conducted the annual impairment review both before and after this change. Neither review resulted in the recognition of impairment, as the fair value of each reporting unit exceeded its carrying value.

### 6. Other Intangible Assets, net

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

| | August 3, 2019 | | | August 4, 2018 | | | February 2, 2019 | | |
|---|---|---|---|---|---|---|---|---|---|
| ($ in millions) | Gross value | Accum. amort. | Net value | Gross value | Accum. amort. | Net value | Gross value | Accum. amort. | Net value |
| Amortized intangible assets: (1) | | | | | | | | | |
| Lease acquisition costs | **$ 116** | **$ (108)** | **$ 8** | $ 125 | $ (115) | $ 10 | $ 120 | $ (111) | $ 9 |
| Trademarks / trade names | **20** | **(15)** | **5** | 20 | (14) | 6 | 20 | (15) | 5 |
| Favorable leases | **-** | **-** | **-** | 7 | (6) | 1 | 7 | (6) | 1 |
| | **$ 136** | **$ (123)** | **$ 13** | $ 152 | $ (135) | $ 17 | $ 147 | $ (132) | $ 15 |
| Indefinite life intangible assets: (1), (2) | | | | | | | | | |
| Runners Point Group trademarks / trade names | | | **$ 8** | | | $ 24 | | | $ 9 |
| Other intangible assets, net | | | **$ 21** | | | $ 41 | | | $ 24 |

(1) The change in the ending balances reflects the effect of foreign currency fluctuations due primarily to the movements of the euro in relation to the U.S. dollar.
(2) During the fourth quarter of 2018, the Company recorded a non-cash impairment charge of $15 million related to these intangibles.

The annual review of intangible assets with indefinite lives performed during the first quarter of 2019 did not result in the recognition of impairment. Amortization expense recorded is as follows:

| | Thirteen weeks ended | | Twenty-six weeks ended | |
|---|---|---|---|---|
| ($ in millions) | August 3, 2019 | August 4, 2018 | August 3, 2019 | August 4, 2018 |
| Amortization expense | **$ 1** | $ 1 | **$ 2** | $ 2 |

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

| | ($ in millions) |
|---|---|
| Remainder of 2019 | $ 2 |
| 2020 | 3 |
| 2021 | 2 |
| 2022 | 2 |
| 2023 | 2 |
| 2024 | 2 |

### 7. Leases

The Company is obligated under operating leases for almost all of its store properties. In addition, the Company leases certain warehouse distribution centers. Operating lease periods generally range from 5 to 10 years and most store leases contain rent escalation provisions. For leases beginning in 2019 and later, the Company will combine lease components (e.g. rental payments) and non-lease components (e.g. common area maintenance costs and utilities). Leases with an initial term of 12 months or less are not recorded on the balance sheet. We recognize lease expense for these short-term leases on a straight-line basis over the lease term.

Right-of-use assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term for those arrangements where there is an identified asset and the contract conveys the right to control its use.

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Since the rates implicit in the leases are not readily determinable, the Company uses its incremental borrowing rates based on the remaining lease term to determine the present value of future lease payments. The Company's incremental borrowing rate for a lease is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms.

Some of the store leases contain renewal options with varying terms and conditions. The Company's lease term includes options to extend or terminate a lease only when it is reasonably certain that it will exercise that option.

The majority of operating lease costs relate to retail stores and distribution centers and the expenses are classified within cost of sales. Operating lease costs for non-store rents are included in SG&A.

Certain leases provide for variable lease costs, which primarily include rent payments based on a percentage of store sales, common area maintenance costs, and taxes. These costs are expensed as incurred and are included within cost of sales.

The components of lease cost as of August 3, 2019 were as follows:

| ($ in millions) | Thirteen weeks ended August 3, 2019 | Twenty-six weeks ended August 3, 2019 |
|---|---|---|
| Operating lease costs | $ 165 | $ 331 |
| Variable lease costs | 81 | 165 |
| Short-term lease costs | 7 | 14 |
| Net lease cost | $ 253 | $ 510 |

Rent expense for the prior year comparative periods is accounted for under previous lease guidance. Rent expense for operating leases for the thirteen weeks ended August 4, 2018 amounted to $192 million and consisted of minimum and contingent rentals of $186 million and $6 million, respectively. For the twenty-six weeks ended August 4, 2018, rent expense for operating leases amounted to $377 million and consisted of minimum and contingent rentals of $365 million and $13 million, respectively, less sublease income of $1 million. Also, most of the Company's leases require the payment of certain executory costs such as insurance, maintenance, and other costs in addition to the future minimum lease payments. These costs, including the amortization of lease rights, totaled $37 million and $74 million for the thirteen and twenty-six weeks ended August 4, 2018, respectively.

Amounts recognized in the Condensed Consolidated Balance Sheet related to operating leases as of August 3, 2019 were as follows:

| | ($ in millions) |
|---|---|
| **Assets** | |
| Operating lease right-of-use assets | $ 2,976 |
| | |
| **Liabilities** | |
| Current | |
| Operating lease liabilities | 497 |
| Noncurrent | |
| Operating lease liabilities | 2,750 |
| Total lease liabilities | $ 3,247 |

Other information related to operating leases as of August 3, 2019 consisted of the following:

| | |
|---|---|
| Weighted average remaining lease term (years) | **7.3** |
| Weighted average discount rate | **5.4 %** |

Supplemental cash flow information related to leases for the twenty-six weeks ended August 3, 2019 was as follows:

| | ($ in millions) |
|---|---|
| Cash paid for amounts included in measurement of lease liabilities: | |
| Operating cash flows from operating leases | **$ 338** |
| Right-of-use assets obtained in exchange for lease obligations: | |
| Operating leases | **114** |

Maturities of lease liabilities as of August 3, 2019 are as follows:

| | ($ in millions) |
|---|---|
| Remainder of 2019 | **$ 337** |
| 2020 | **637** |
| 2021 | **588** |
| 2022 | **533** |
| 2023 | **462** |
| Thereafter | **1,431** |
| Total lease payments | **3,988** |
| Less: Interest | **741** |
| Total lease liabilities | **$ 3,247** |

As of February 2, 2019, the estimated future minimum non-cancellable lease commitments were as follows:

| | ($ in millions) |
|---|---|
| 2019 | $ 672 |
| 2020 | 631 |
| 2021 | 583 |
| 2022 | 527 |
| 2023 | 456 |
| Thereafter | 1,408 |
| Total operating lease commitments | $ 4,277 |

**8. Accumulated Other Comprehensive Loss**

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

| | **August 3, 2019** | **August 4, 2018** | **February 2, 2019** |
|---|---|---|---|
| | | ($ in millions) | |
| Foreign currency translation adjustments | **$ (105)** | $ (67) | $ (84) |
| Cash flow hedges | **3** | 1 | — |
| Unrecognized pension cost and postretirement benefit | **(282)** | (274) | (286) |
| | **$ (384)** | $ (340) | $ (370) |

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The changes in AOCL for the twenty-six weeks ended August 3, 2019 were as follows:

| ($ in millions) | Foreign Currency Translation Adjustments | Cash Flow Hedges | Items Related to Pension and Postretirement Benefits | Total |
|---|---|---|---|---|
| Balance as of February 2, 2019 | $ (84) | $ — | $ (286) | $ (370) |
| OCI before reclassification | (21) | 3 | — | (18) |
| Amortization of pension actuarial (gain)/loss, net of tax | — | — | 4 | 4 |
| Other comprehensive income | (21) | 3 | 4 | (14) |
| **Balance as of August 3, 2019** | **$ (105)** | **$ 3** | **$ (282)** | **$ (384)** |

Reclassifications from AOCL for the twenty-six weeks ended August 3, 2019 were as follows:

| | ($ in millions) |
|---|---|
| Amortization of actuarial (gain) loss: | |
| Pension benefits- amortization of actuarial loss | **$ 6** |
| Postretirement benefits- amortization of actuarial gain | **(1)** |
| Net periodic benefit cost (see Note 11) | **5** |
| Income tax benefit | **(1)** |
| Total, net of tax | **$ 4** |

**9. Fair Value Measurements**

The Company's financial assets recorded at fair value are categorized as follows:

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

**Level 2 –** Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs or significant value-drivers are observable in active markets.

**Level 3 –** Model-derived valuations in which one or more significant inputs or significant value-drivers are unobservable.

The fair values of the Company's equity investments are determined by using quoted prices for identical or similar instruments in markets that are not active and therefore are classified as Level 2. 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. The Company's derivative financial instruments are valued using market-based inputs to valuation models. These valuation models require a variety of inputs, including contractual terms, market prices, yield curves, and measures of volatility and therefore are classified as Level 2 instruments.

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The following table provides a summary of the Company's recognized assets and liabilities that are measured at fair value on a recurring basis:

| | August 3, 2019 | | | August 4, 2018 ($ in millions) | | | February 2, 2019 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| **Assets** | | | | | | | | | |
| Equity investments | $ — | $ 133 | $ — | $ — | $ 15 | $ — | $ — | $ 94 | $ — |
| Available-for-sale security | — | 6 | — | — | 7 | — | — | 6 | — |
| Foreign exchange forward contracts | — | 4 | — | — | 2 | — | — | — | — |
| Total Assets | $ — | $ 143 | $ — | $ — | $ 24 | $ — | $ — | $ 100 | $ — |
| **Liabilities** | | | | | | | | | |
| Foreign exchange forward contracts | — | — | — | — | 1 | — | — | 1 | — |
| Total Liabilities | $ — | $ — | $ — | $ — | $ 1 | $ — | $ — | $ 1 | $ — |

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

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

| | August 3, 2019 | August 4, 2018 ($ in millions) | February 2, 2019 |
|---|---|---|---|
| Carrying value | $ 123 | $ 124 | $ 124 |
| Fair value | $ 136 | $ 140 | $ 136 |

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

### 10. Earnings Per Share

The Company accounts for and discloses earnings per share using the treasury stock method. Basic earnings per share is computed by dividing net income for the period by the weighted-average number of common shares outstanding at the end of the period. Restricted stock awards, which contain non-forfeitable rights to dividends, are considered participating securities and are included in the calculation of basic earnings per share.

Diluted earnings per share reflects the weighted-average number of common shares outstanding during the period used in the basic earnings per share computation plus dilutive common stock equivalents.

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The computation of basic and diluted earnings per share is as follows:

| | Thirteen weeks ended | | Twenty-six weeks ended | |
|---|---|---|---|---|
| | August 3, 2019 | August 4, 2018 | August 3, 2019 | August 4, 2018 |
| | (in millions, except per share data) | | | |
| Net Income | **$ 60** | $ 88 | **$ 232** | $ 253 |
| | | | | |
| Weighted-average common shares outstanding | **110.8** | 116.6 | **111.6** | 117.7 |
| Dilutive effect of potential common shares | **0.3** | 0.5 | **0.5** | 0.4 |
| Weighted-average common shares outstanding assuming dilution | **111.1** | 117.1 | **112.1** | 118.1 |
| | | | | |
| Earnings per share - basic | **$ 0.55** | $ 0.76 | **$ 2.09** | $ 2.15 |
| Earnings per share - diluted | **$ 0.55** | $ 0.75 | **$ 2.08** | $ 2.14 |
| | | | | |
| Anti-dilutive share-based awards excluded from diluted calculation | **2.4** | 2.0 | **1.8** | 1.7 |

Additionally, shares of 0.7 million and 1.1 million as of August 3, 2019 and August 4, 2018, respectively, have been excluded from diluted weighted-average shares as the number of shares that will be issued is contingent on the Company's performance metrics as compared to the pre-established performance goals which have not been achieved as of August 3, 2019 and August 4, 2018. These shares relate to restricted stock units issued in connection with the Company's long-term incentive program.

## 11. Pension and Postretirement Plans

The Company has defined benefit pension plans covering certain of its North American employees, which are funded in accordance with the provisions of the laws where the plans are in effect. The Company also has a defined benefit pension plan covering certain employees of the Runners Point Group. In addition to providing pension benefits, the Company sponsors postretirement medical and life insurance plans, which are available to most of its retired U.S. employees. These medical and life insurance plans are contributory and are not funded. The table below are the components of net periodic pension benefit cost and net periodic postretirement benefit income. Service cost is recognized as part of SG&A expense, while the remaining pension and postretirement expense components are recognized as part of other income.

| | Pension Benefits | | | | Postretirement Benefits | | | |
|---|---|---|---|---|---|---|---|---|
| | Thirteen weeks ended | | Twenty-six weeks ended | | Thirteen weeks ended | | Twenty-six weeks ended | |
| | Aug. 3 2019 | Aug. 4 2018 | Aug. 3 2019 | Aug. 4 2018 | Aug. 3 2019 | Aug. 4 2018 | Aug. 3 2019 | Aug. 4 2018 |
| | ($ in millions) | | | | | | | |
| Service cost | **$ 5** | $ 4 | **$ 10** | $ 9 | **$ —** | $ — | **$ —** | $ — |
| Interest cost | **6** | 7 | **13** | 13 | **—** | — | **—** | — |
| Expected return on plan assets | **(9)** | (9) | **(18)** | (19) | **—** | — | **—** | — |
| Amortization of net loss (gain) | **3** | 3 | **6** | 6 | **(1)** | (1) | **(1)** | (1) |
| Net benefit expense (income) | **$ 5** | $ 5 | **$ 11** | $ 9 | **$ (1)** | $ (1) | **$ (1)** | $ (1) |

The Company contributed $55 million in March 2019 to its U.S. qualified pension plan. The Company continually evaluates the amount and timing of any future contributions.

## 12. Share-Based Compensation

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

| | Thirteen weeks ended | | Twenty-six weeks ended | |
|---|---|---|---|---|
| | **August 3, 2019** | **August 4, 2018** | **August 3, 2019** | **August 4, 2018** |
| | ($ in millions) | | | |
| Options and shares purchased under the employee stock purchase plan | **$ 2** | $ 1 | **$ 4** | $ 3 |
| Restricted stock and restricted stock units | **4** | 3 | **9** | 6 |
| Total share-based compensation expense | **$ 6** | $ 4 | **$ 13** | $ 9 |
| Tax benefit recognized | **$ —** | $ — | **$ 1** | $ 1 |

*Valuation Model and Assumptions*

The Company uses 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 following table shows the Company's assumptions used to compute share-based compensation expense for awards granted during the twenty-six weeks ended August 3, 2019 and August 4, 2018:

| | Stock Option Plans | | Stock Purchase Plan | |
|---|---|---|---|---|
| | **August 3, 2019** | **August 4, 2018** | **August 3, 2019** | **August 4, 2018** |
| Weighted-average risk free rate of interest | **2.2 %** | 2.7 % | **2.3 %** | 1.6 % |
| Expected volatility | **38 %** | 37 % | **57 %** | 41 % |
| Weighted-average expected award life (in years) | **5.5** | 5.5 | **1.0** | 1.0 |
| Dividend yield | **2.6 %** | 3.1 % | **2.8 %** | 2.3 % |
| Weighted-average fair value | **$ 17.19** | $ 12.37 | **$ 20.33** | $ 14.89 |

The information in the following table covers option activity under the Company's stock option plans for the twenty-six weeks ended August 3, 2019:

| | 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 | 2,861 | | $ 52.34 |
| Granted | 316 | | 58.96 |
| Exercised | (163) | | 27.10 |
| Expired or cancelled | (76) | | 60.71 |
| Options outstanding at August 3, 2019 | 2,938 | 6.2 | $ 54.23 |
| Options exercisable at August 3, 2019 | 2,182 | 5.3 | $ 53.67 |
| Options available for future grant at August 3, 2019 | 7,375 | | |

The total fair value of options vested as of August 3, 2019 and August 4, 2018 was $6 million and $8 million, respectively. The cash received from option exercises for the thirteen and twenty-six weeks ended August 3, 2019 was not significant. The total tax benefit realized from option exercises was not significant and $1 million for the thirteen and twenty-six weeks ended August 3, 2019, respectively.

The total intrinsic value of options exercised (the difference between the market price of the Company's 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 | |
|---|---|---|---|---|
| | **August 3, 2019** | **August 4, 2018** | **August 3, 2019** | **August 4, 2018** |
| | ($ in millions) | | | |
| Exercised | **$ —** | $ 3 | **$ 5** | $ 3 |

The aggregate intrinsic value for stock options outstanding, and outstanding and exercisable (the difference between the Company's 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 | |
|---|---|---|
| | **August 3, 2019** | **August 4, 2018** |
| | ($ in millions) | |
| Outstanding | **$ 5** | $ 15 |
| Outstanding and exercisable | **$ 5** | $ 13 |

As of August 3, 2019 there was $6 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.

The following table summarizes information about stock options outstanding and exercisable at August 3, 2019:

| | 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) | | | | |
| $9.85 to $18.84 | 129 | 1.5 | $ 18.53 | 129 | $ 18.53 |
| $24.75 to $34.75 | 376 | 3.5 | 32.09 | 338 | 31.78 |
| $44.78 to $45.75 | 582 | 6.9 | 44.91 | 352 | 44.99 |
| $46.64 to $62.11 | 952 | 6.8 | 60.00 | 619 | 60.96 |
| $63.33 to $73.21 | 899 | 6.9 | 68.57 | 744 | 67.75 |
| | 2,938 | 6.2 | $ 54.23 | 2,182 | $ 53.67 |

*Restricted Stock and Restricted Stock Units*

Restricted shares of the Company's common stock and restricted stock units ("RSU") may be awarded to certain officers and key employees of the Company. Additionally, RSU awards are made to employees in connection with the Company's long-term incentive program and to nonemployee directors. Each RSU represents the right to receive one share of the Company's common stock provided that the performance and vesting conditions are satisfied. There were no outstanding restricted stock awards as of August 3, 2019 and an insignificant number of restricted stock awards were outstanding as August 4, 2018.

Generally, awards fully vest after the passage of time, typically three years. However, RSU awards made in connection with the Company's performance-based long-term incentive program are earned after the attainment of certain performance metrics and vest after the passage of time. Restricted stock is considered outstanding at the time of grant and the holders have voting rights. Dividends are paid to holders of restricted stock that vest with the passage of time. With regard to performance-based restricted stock, dividends will be accumulated and paid after the performance criteria are met. No dividends are paid or accumulated on any RSU awards. Compensation expense is recognized using the market value at the date of grant and is amortized over the vesting period, provided the recipient continues to be employed by the Company.

Restricted stock and RSU activity for the twenty-six weeks ended August 3, 2019 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 | 1,022 | | $ 47.47 |
| Granted (1) | 302 | | 58.76 |
| Vested | (88) | | 60.40 |
| Performance adjustment (2) | (34) | | |
| Expired or cancelled | (21) | | 53.09 |
| Nonvested at August 3, 2019 | 1,181 | 2.0 | $ 49.22 |
| Aggregate value ($ in millions) | $ 58 | | |

(1) Included in the units granted are approximately 0.2 million performance-based RSUs. The number of performance-based RSUs that are ultimately earned may vary from 0% to 200% of target depending on the achievement relative to the Company's predefined financial performance targets.

(2) This represents adjustments made to performance-based RSU awards and reflect changes in estimates based upon the Company's current performance against predefined financial targets.

The total value of awards for which restrictions lapsed during the twenty-six weeks ended August 3, 2019 and August 4, 2018 was $5 million and $6 million, respectively. As of August 3, 2019, there was $34 million of total unrecognized compensation cost related to nonvested awards.

**13. 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. Additionally, the Company and certain officers of the Company are defendants in a purported securities law class action in New York. The directors and certain officers of the Company are also defendants in related derivative actions.

Management does 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 the Company's 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.

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

**Disclosure Regarding Forward-Looking Statements**

This report contains forward-looking statements within the meaning of the federal securities laws. Other than statements of historical facts, all statements which address activities, events, or developments that the Company anticipates will or may occur in the future, including, but not limited to, such things as future capital expenditures, expansion, strategic plans, financial objectives, dividend payments, stock repurchases, growth of the Company's business and operations, including future cash flows, revenues, and earnings, and other such matters, are forward-looking statements. These forward-looking statements are based on many assumptions and factors which are detailed in the Company's filings with the U.S. Securities and Exchange Commission.

These forward-looking statements are based largely on our expectations and judgments and are subject to a number of risks and uncertainties, many of which are unforeseeable and beyond our control. For additional discussion on risks and uncertainties that may affect forward-looking statements, see "Risk Factors" disclosed in the 2018 Annual Report on Form 10-K. Any changes in such assumptions or factors could produce significantly different results. The Company undertakes no obligation to update forward-looking statements, whether as a result of new information, future events, or otherwise.

**Business Overview**

Foot Locker, Inc., through its subsidiaries, is one of the largest athletic footwear and apparel retailers in the world, operating 3,174 stores in 27 countries. The Foot Locker brand is one of the most widely recognized names in the markets in which we operate, epitomizing premium quality for the active lifestyle customer. We operate websites and mobile apps, aligned with the brand names of our store banners. Our sites offer some of the largest online selections of athletically inspired shoes and apparel, while providing a seamless link between e-commerce and physical stores. We also operate the websites for eastbay.com, final-score.com, and eastbayteamsales.com.

With its various marketing channels and experiences across North America, Europe, Asia, Australia, and New Zealand, the Company's 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 sport and sneaker communities.

*Store Count*

At August 3, 2019, we operated 3,174 stores as compared with 3,221 and 3,276 stores at February 2, 2019 and August 4, 2018, respectively.

*Franchise Operations*

A total of 133 franchised stores were operating at August 3, 2019, as compared with 122 and 117 stores at February 2, 2019 and August 4, 2018, respectively. Revenue from the franchised stores was not significant for any of the periods presented. These stores are not included in the operating store count above.

**Reconciliation of Non-GAAP Measures**

In addition to reporting the Company's financial results in accordance with generally accepted accounting principles ("GAAP"), the Company reports 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 results for the thirteen and twenty-six weeks ended August 3, 2019 and August 4, 2018, respectively.

| | Thirteen weeks ended | | Twenty-six weeks ended | |
|---|---|---|---|---|
| | **August 3, 2019** | **August 4, 2018** | **August 3, 2019** | **August 4, 2018** |
| | ($ in millions) | | | |
| **Pre-tax income:** | | | | |
| Income before income taxes | **$ 85** | $ 115 | **$ 319** | $ 344 |
| Pre-tax amounts excluded from GAAP: | | | | |
| Litigation and other charges | **14** | 3 | **15** | 15 |
| Adjusted income before income taxes (non-GAAP) | **$ 99** | $ 118 | **$ 334** | $ 359 |
| **After-tax income:** | | | | |
| Net income | **$ 60** | $ 88 | **$ 232** | $ 253 |
| After-tax adjustments excluded from GAAP: | | | | |
| Litigation and other charges, net of income tax benefit of $4, $1, $4, and $4 million, respectively | **10** | 2 | **11** | 11 |
| U.S. tax reform | **2** | (1) | **2** | (1) |
| Tax benefit related to enacted change in foreign branch currency regulations | **—** | (1) | **—** | (1) |
| Adjusted net income (non-GAAP) | **$ 72** | $ 88 | **$ 245** | $ 262 |
| **Earnings per share:** | | | | |
| Diluted EPS | **$ 0.55** | $ 0.75 | **$ 2.08** | 2.14 |
| Diluted EPS amounts excluded from GAAP: | | | | |
| Litigation and other charges | **0.09** | 0.02 | **0.10** | 0.09 |
| U.S. tax reform | **0.02** | (0.01) | **0.02** | (0.01) |
| Tax benefit related to enacted change in foreign branch currency regulations | **—** | (0.01) | **—** | (0.01) |
| Adjusted diluted EPS (non-GAAP) | **$ 0.66** | $ 0.75 | **$ 2.20** | $ 2.21 |

The Company recorded pre-tax charges of $1 million and $3 million for the thirteen weeks ended August 3, 2019 and August 4, 2018, respectively, related to a pension litigation matter and related plan reformation. For the twenty-six weeks ended August 3, 2019 and August 4, 2018, the Company recorded pre-tax charges of $2 million and $15 million, respectively. The charges in the current periods reflect professional fees in connection with the plan reformation. The prior year charges reflected adjustments to the value of the judgment and interest that continued to accrue, as required by the provisions of the required plan reformation.

For the thirteen weeks ended August 3, 2019, the Company incurred $13 million of lease termination costs related to the closure of certain of its SIX:02 locations.

In connection with tax reform, the Company recorded a charge for $2 million and a benefit of $1 million for the thirteen weeks ended August 3, 2019 and August 4, 2018, respectively. The charge recorded during the second quarter of 2019 reflected an adjustment to U.S. tax on foreign income. The benefit recorded in the prior-year period, reflected a revision to the provisional amounts recorded during the fourth quarter of 2017.

During the second quarter of 2018, the U.S. Treasury issued a notice that delayed the effective date of regulations under Internal Revenue Code Section 987. These regulations, which were promulgated in December 2016, changed our method for determining the tax effects of foreign currency translation gains and losses for our foreign businesses that are operated as branches and are reported in a currency other than the currency of their parent. As a result of the delay in the effective date, the Company updated its calculations for the effect of these regulations, which resulted in an increase to deferred tax assets and a corresponding reduction in our income tax provision in the amount of $1 million.

**Segment Reporting**

We identify our operating segments according to how our business activities are managed and evaluated by our chief operating decision maker, our CEO.

Beginning in 2018, the Company changed its organizational and internal reporting structure in order to execute our omni-channel strategy. This change resulted in the combination of our stores and direct-to-customers financial results.

Effective as of 2019, the Company has determined that it has 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, Footaction, and SIX:02, 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, Runners Point, 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, as applicable, 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. Please see Item 1. “Financial Statements,” Note 3, *Segment Information* for further information on this change.

**Results of Operations**

We evaluate performance based on several factors, of which the primary financial measure is the banner’s financial results referred to as division profit. Division profit reflects income before income taxes, pension litigation charge, corporate expense, non-operating income, and net interest income. The following table summarizes our results:

| | Thirteen weeks ended | | Twenty-six weeks ended | |
|---|---|---|---|---|
| | August 3, 2019 | August 4, 2018 | August 3, 2019 | August 4, 2018 |
| | ($ in millions) | | | |
| **Sales** | **$ 1,774** | $ 1,782 | **$ 3,852** | $ 3,807 |
| | | | | |
| **Operating Results** | | | | |
| Division profit | **115** | 131 | **365** | 378 |
| Less: Litigation and other charges (1) | **14** | 3 | **15** | 15 |
| Less: Corporate expense (2) | **20** | 16 | **41** | 27 |
| Income from operations | **81** | 112 | **309** | 336 |
| Interest income, net | **2** | 1 | **6** | 3 |
| Other income (3) | **2** | 2 | **4** | 5 |
| Income before income taxes | **$ 85** | $ 115 | **$ 319** | $ 344 |

(1) The Company recorded pre-tax charges of $1 million and $3 million for the thirteen weeks ended August 3, 2019 and August 4, 2018, respectively, related to a pension litigation matter and related plan reformation. For the twenty-six weeks ended August 3, 2019 and August 4, 2018, the Company recorded pre-tax charges of $2 million and $15 million, respectively. The charges in the current periods reflects professional fees in connection with the plan reformation. The prior year charges reflected adjustments to the value of the judgment and interest that continued to accrue, as required by the provisions of the required plan reformation.

For the thirteen weeks ended August 3, 2019, the Company incurred $13 million of lease termination costs related to the closure of certain of its SIX:02 locations.

(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, premiums paid, realized gains and losses associated with foreign currency option contracts, changes in the market value of our available-for-sale security, changes in the fair value of our equity investments, and net benefit expense related to our pension and postretirement programs excluding the service cost component.

*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. 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 | |
|---|---|---|---|---|
| | August 3, 2019 | August 4, 2018 | August 3, 2019 | August 4, 2018 |
| | ($ in millions) | | | |
| **Stores** | | | | |
| Sales | **$ 1,521** | $ 1,542 | **$ 3,279** | $ 3,285 |
| $ Change | **$ (21)** | | **$ (6)** | |
| % Change | **(1.4)%** | | **(0.2)%** | |
| % of total sales | **85.7 %** | 86.5 % | **85.1 %** | 86.3 % |
| Comparable sales change | **(0.1)%** | (0.8)% | **1.5 %** | (2.0)% |
| | | | | |
| **Direct-to-customers** | | | | |
| Sales | **$ 253** | $ 240 | **$ 573** | $ 522 |
| $ Change | **$ 13** | | **$ 51** | |
| % Change | **5.4 %** | | **9.8 %** | |
| % of total sales | **14.3 %** | 13.5 % | **14.9 %** | 13.7 % |
| Comparable sales change | **6.5 %** | 9.3 % | **10.9 %** | 3.8 % |

Sales decreased by $8 million, or 0.4 percent, to $1,774 million for the thirteen weeks ended August 3, 2019, from $1,782 million for the thirteen weeks ended August 4, 2018. For the twenty-six weeks ended August 3, 2019, sales of $3,852 million increased by 1.2 percent from sales of $3,807 million in the corresponding prior-year period. Excluding the effect of foreign currency fluctuations, total sales increased by 0.8 percent and 2.9 percent for the thirteen and twenty-six weeks ended August 3, 2019, respectively.

Total comparable sales increased by 0.8 percent and 2.8 percent for the thirteen and twenty-six weeks ended August 3, 2019, respectively. For both the thirteen and twenty-six weeks ended August 3, 2019, our direct-to-customers channel generated positive comparable sales results as compared with the corresponding prior-year periods. The penetration of our direct-to-customer channel increased by 80 basis points to 14.3 percent. For the twenty-six weeks ended August 3, 2019, the stores channel generated positive comparable sales results, however the stores channel had a 0.1 percent decline during the thirteen-weeks ended August 3, 2019. The improvement in our direct-to-customers channel is due in part to continued positive customer satisfaction as a result of our various e-commerce enhancements.

Each of our operating segments generated a comparable sales increase during the second quarter and year-to-date periods of 2019.

In North America, Foot Locker Canada and Champs Sports led the second quarter results, with increases in the low double digits and mid-single digits, respectively. Foot Locker U.S. generated a low single-digits comparable sales increase, while Eastbay's sales declined high-single digits. Footaction and Kids Foot Locker continued to experience declines consistent with the first quarter. Additionally, North America's sales were negatively affected by the closure of the SIX:02 banner, as substantially all stores were closed by the end of the second quarter. The decline in Footaction's sales primarily reflected the lack of product availability of certain key men's footwear styles. Management is implementing various merchandising initiatives to improve Footaction's results and will continue to monitor this banner during the third quarter and will assess, if necessary, the effect of various initiatives on the projected performance, which may include an impairment review. Kids Foot Locker's decline was primarily related to declines in sales of apparel. The decline in Eastbay's sales for the second quarter was primarily due to softer demand for performance-related products.

Our positive EMEA operating segment sales performance was primarily related to our Foot Locker Europe e-commerce business, with Runners Point and Sidestep's comparable sales remaining relatively flat.

The Asia Pacific operating segment continued to increase both from the store expansion in Asia and increased sales from our operations in Australia, which was primarily the result of growth in our e-commerce business.

The year-to-date comparable sales changes are consistent with the factors noted above.

From a product perspective for the combined channels, the increase in comparable sales for both the quarter and year-to-date periods was primarily driven by footwear. For both periods, the increase was partially offset by a decline in apparel sales. Within the footwear category, sales of women's and children's footwear contributed the most to the increase. Court and casual footwear styles continued to resonate well with our customers. Sales of men's footwear, particularly sales of basketball styles, were negatively affected by the timing of certain product launches and declined slightly for the quarter, as compared with a low single-digit increase for the year-to-date period. Apparel sales declined for both the quarter and year-to-date period across all wearer segments.

*Gross Margin*

| | Thirteen weeks ended | | Twenty-six weeks ended | |
|---|---|---|---|---|
| | **August 3, 2019** | **August 4, 2018** | **August 3, 2019** | **August 4, 2018** |
| Gross margin rate | **30.1 %** | 30.2 % | **31.7 %** | 31.7 % |
| Basis point increase in the gross margin rate | **(10)** | | **—** | |
| Components of the change- | | | | |
| Merchandise margin rate decline | **(20)** | | **(40)** | |
| Lower occupancy and buyers' compensation expense rate | **10** | | **40** | |

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, common area maintenance charges, real estate taxes, general maintenance, and utilities.

The gross margin rate decreased by 10 basis points for the thirteen weeks ended August 3, 2019 and remained unchanged for the twenty-six weeks ended August 3, 2019, as compared with the corresponding prior-year periods. The merchandise margin rate decline reflected a higher proportion of direct-to-customer sales, which bear a higher freight cost. The occupancy and buyers' compensation expense rate decreased for the thirteen and twenty-six weeks ended August 3, 2019, which was primarily the result of higher sales as compared with a relatively fixed rent cost.

*Selling, General and Administrative Expenses (SG&A)*

| | Thirteen weeks ended | | Twenty-six weeks ended | |
|---|---|---|---|---|
| | **August 3, 2019** | **August 4, 2018** | **August 3, 2019** | **August 4, 2018** |
| | | ($ in millions) | | |
| SG&A | **$ 393** | $ 380 | **$ 809** | $ 765 |
| $ Change | **$ 13** | | **$ 44** | |
| % Change | **3.4 %** | | **5.8 %** | |
| SG&A as a percentage of sales | **22.2 %** | 21.3 % | **21.0 %** | 20.1 % |

SG&A increased by $13 million, or by 90 basis points, to $393 million for the thirteen weeks ended August 3, 2019, as compared with the corresponding prior-year period. For the twenty-six weeks ended August 3, 2019, SG&A increased by $44 million, or by 90 basis points, to $809 million, as compared with the corresponding prior-year period. Excluding the effect of foreign currency fluctuations, SG&A increased by $18 million and $60 million for the thirteen and twenty-six weeks ended August 3, 2019, respectively, as compared with the corresponding prior-year periods.

The higher SG&A expense rate for the quarter reflected higher wages and an increase in costs incurred in connection with our ongoing investment in various technology and infrastructure projects. Corporate expense (a component of SG&A) increased during the quarter, also reflecting the same factors noted previously and higher share-based compensation that is tied to the Company's performance.

Affecting the year-to-date comparison is a benefit of $5 million that was recorded in the first quarter of 2018 relating to insurance recoveries for damaged inventory and fixed assets for losses incurred during Hurricane Maria in 2017.

*Depreciation and Amortization*

| | Thirteen weeks ended | | Twenty-six weeks ended | |
|---|---|---|---|---|
| | **August 3, 2019** | **August 4, 2018** | **August 3, 2019** | **August 4, 2018** |
| | | ($ in millions) | | |
| Depreciation and amortization | **$ 46** | $ 44 | **$ 90** | $ 89 |
| $ Change | **$ 2** | | **$ 1** | |
| % Change | **4.5 %** | | **1.1 %** | |

Depreciation and amortization increased by $2 million and $1 million for the thirteen and twenty-six weeks ended August 3, 2019, 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 the year-to-date periods. The increase in depreciation and amortization reflects ongoing capital spending.

*Division Profit*

| | Thirteen weeks ended | | Twenty-six weeks ended | |
|---|---|---|---|---|
| | **August 3, 2019** | **August 4, 2018** | **August 3, 2019** | **August 4, 2018** |
| | | ($ in millions) | | |
| Division profit | **$ 115** | $ 131 | **$ 365** | $ 378 |
| Division profit margin | **6.5 %** | 7.4 % | **9.5 %** | 9.9 % |

Division profit margin decreased by 90 and 40 basis points for the thirteen and twenty-six weeks ended August 3, 2019, as compared with the corresponding prior-year periods. The decrease in division profit for the thirteen and twenty-six weeks ended August 3, 2019 was primarily due to higher SG&A expenses.

*Interest Income, Net*

| | Thirteen weeks ended | | Twenty-six weeks ended | |
|---|---|---|---|---|
| | **August 3, 2019** | **August 4, 2018** | **August 3, 2019** | **August 4, 2018** |
| | | ($ in millions) | | |
| Interest expense | **$ (3)** | $ (3) | **$ (5)** | $ (6) |
| Interest income | **5** | 4 | **11** | 9 |
| Interest income, net | **$ 2** | $ 1 | **$ 6** | $ 3 |

Net interest income increased by $1 million and $3 million for the thirteen and twenty-six weeks ended August 3, 2019, as compared with the corresponding prior-year periods. Interest income for both periods increased primarily as a result of cash repatriation to the U.S., where we earned a higher average interest rate.

*Income Taxes*

| | Thirteen weeks ended | | Twenty-six weeks ended | |
|---|---|---|---|---|
| | **August 3, 2019** | **August 4, 2018** | **August 3, 2019** | **August 4, 2018** |
| | | ($ in millions) | | |
| Provision for income taxes | **$ 25** | $ 27 | **$ 87** | $ 91 |
| Effective tax rate | **29.5 %** | 23.6 % | **27.2 %** | 26.4 % |

The Company’s interim provision for income taxes is measured using an annual effective tax rate, adjusted for discrete items that occur within the periods presented. The discrete items discussed below represented the main reasons for the changes in the effective tax rate.

The Company regularly assesses the adequacy of the Company's provisions for income tax contingencies in accordance with applicable authoritative guidance on accounting for income taxes. As a result, the Company 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 the tax reserves were not significant for the thirteen and twenty-six weeks ended August 3, 2019. The effective tax rate for the thirteen weeks ended August 4, 2018 included a tax benefit of $3 million from a reserve release due to a settlement of an international tax examination.

For the thirteen weeks ended August 3, 2019, the Company recognized a tax expense of $2 million due to an adjustment to U.S. tax on foreign income attributable to tax reform.

During the thirteen weeks ended August 3, 2019, the Company recorded charges totaling $14 million, which primarily related to the costs to terminate the SIX:02 leases, the tax benefit recorded in connection with these charges was $4 million.

For the twenty-six weeks ended August 3, 2019, the Company recognized a tax benefit of $3 million due to an adjustment to a foreign tax credit valuation allowance.

For the twenty-six weeks ended August 4, 2018, the Company reduced its provisional net expense related to mandatory deemed repatriation of foreign sourced net earnings by $1 million. In addition, the Company reduced its income tax provision in the amount of $1 million as a result of the delay in the effective date of certain tax regulations.

The Company currently expects its full-year tax rate to approximate 27.5 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 in which we operate.

*Net Income*

For the thirteen and twenty-six weeks ended August 3, 2019, net income decreased by $28 million, or 31.8 percent, and by $21 million, or 8.3 percent, respectively, as compared with the corresponding prior-year periods. Diluted earnings per share decreased by 26.7 percent to $0.55 per share, and by 2.8 percent to $2.08 per share as compared with the corresponding prior-year period.

**Liquidity and Capital Resources**

*Liquidity*

Our primary source of liquidity continues to be cash flow from operations, while the principal uses of cash are 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 also from time to time may make investments in other companies that we feel can enable us to achieve our vision of serving youth culture. We generally finance real estate with operating leases. We believe our cash, cash equivalents, and future cash flow from operations will be adequate to fund these requirements.

The Company may also from time to time 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 August 3, 2019, $1.08 billion remained available under the Company's current 3-year share repurchase program.

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 vendors for a significant portion of our merchandise purchases and risks associated with global product sourcing, economic conditions worldwide, the effects of currency fluctuations, as well as other factors listed under the heading “Disclosure Regarding Forward-Looking Statements,” could affect our ability to continue to fund our needs from business operations.

*Operating Activities*

| | Twenty-six weeks ended | |
|---|---|---|
| | **August 3, 2019** | **August 4, 2018** |
| | ($ in millions) | |
| Net cash provided by operating activities | **$ 328** | $ 427 |
| $ Change | **$ (99)** | |

The amount provided by operating activities reflects net income adjusted for non-cash items and working capital changes. Adjustments to net income for non-cash items include depreciation and amortization, and share-based compensation expense.

The decrease in cash provided by operating activities, compared with the same period of last year, reflected a decrease in net income and lower net inflows associated with changes in working capital. Also, during the thirteen weeks ended May 4, 2019, we contributed $55 million to our U.S. qualified pension plan primarily representing the funds available in the qualified settlement fund established in connection with our pension litigation matter, which compares with $30 million contributed during the corresponding prior-year period. During the second quarter of 2018, the Company paid class counsel $97 million in connection with the pension litigation matter.

*Investing Activities*

| | Twenty-six weeks ended | |
|---|---|---|
| | **August 3, 2019** | **August 4, 2018** |
| | ($ in millions) | |
| Net cash used in investing activities | **$ 126** | $ 113 |
| $ Change | **$ 13** | |

Capital expenditures decreased for the twenty-six weeks ended August 3, 2019 by $34 million as compared with the corresponding prior-year period. This represented an increase in spending on store projects and technology projects partially offset by a decrease related to logistics. The Company’s full-year capital spending is expected to be approximately $250 million, which is approximately $25 million lower than the target that was established at the beginning of the year and reflects changes in the timing of certain projects. The revised forecast includes $155 million related to the remodeling or relocation of approximately 160 existing stores and the opening of approximately 65 new stores, as well as $95 million for the development of information systems, websites, and infrastructure, including supply chain initiatives.

Additionally, investing activities for the twenty-six weeks ended August 3, 2019 included $45 million in minority investments. Investing outflows for the twenty-six weeks ended May 5, 2018 were partially offset by the receipt of insurance proceeds of $2 million for fixed assets from an insurance claim relating to Hurricane Maria.

*Financing Activities*

| | | Twenty-six weeks ended | | |
|---|---|---|---|---|
| | | **August 3, 2019** | | **August 4, 2018** |
| | | ($ in millions) | | |
| Net cash used in financing activities | **$** | **201** | $ | 281 |
| $ Change | **$** | **(80)** | | |

During the twenty-six weeks ended August 3, 2019, we repurchased 2,932,100 shares of our common stock for $122 million, as compared with 4,452,405 shares repurchased for $205 million in the corresponding prior-year period. The Company also declared and paid dividends of $84 million and $81 million during the first two quarters of 2019 and 2018, respectively. This represented quarterly rates of $0.38 and $0.345 per share for 2019 and 2018, respectively. Also, during the twenty-six weeks ended August 3, 2019 and August 4, 2018, we paid $2 million and $1 million, respectively, to satisfy tax withholding obligations relating to the vesting of share-based equity awards. Offsetting the amounts above were proceeds received from the issuance of common stock and treasury stock in connection with employee stock programs of $7 million and $6 million for the twenty-six weeks ended August 3, 2019 and August 4, 2018, respectively.

**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 February 2, 2019.

**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 point-of-sale software to a new platform. Approximately 2,400 stores have been converted to the new software platform as of August 3, 2019, and we currently expect to complete the implementation during the second half of 2019. 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.

Additionally, during the fourth quarter of 2018 the Company implemented a new lease accounting system in advance of the adoption of the new leasing standard that was effective the first quarter of 2019. We revised our controls in connection with this adoption and are continuing to refine business processes and make changes to the design and implementation of our internal controls as appropriate.

During the quarter ended August 3, 2019, there were no changes in the Company's internal control over financial reporting, other than the implementation of new point-of-sale software and lease accounting system noted above, (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 2018 Annual Report on Form 10-K filed with the SEC on April 2, 2019 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 2018 Form 10-K. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may adversely affect our business, financial condition or operating results.

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

The following table provides information with respect to shares of the Company's common stock that the Company repurchased during the thirteen weeks ended August 3, 2019:

| Date Purchased | Total Number of Shares Purchased (1) | Average Price Paid Per Share (1) | Total Number of Shares Purchased as Part of Publicly Announced Program (2) | Approximate Dollar Value of Shares that may yet be Purchased Under the Program (2) |
|---|---|---|---|---|
| May 5 to June 1, 2019 | 90 | $ 39.35 | — | $ 1,200,000,000 |
| June 2 to July 6, 2019 | 2,900,085 | 41.37 | 2,900,000 | 1,080,032,419 |
| July 7 to August 3, 2019 | 316 | 39.36 | — | 1,080,032,419 |
| | 2,900,491 | $ 41.37 | 2,900,000 | |

(1) These columns also 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) On February 20, 2019, the Board of Directors approved a new 3-year, $1.2 billion share repurchase program extending through January 2022.

***Item 6. Exhibits***

| Exhibit No. | Description |
|---|---|
| 10.1* | Amendment Number Four to the Foot Locker Supplemental Executive Retirement Plan. |
| 15* | Accountants' Acknowledgement. |
| 31.1* | Certification of Chief Executive Officer Pursuant to Rule 13a14(a) or 15d14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2* | Certification of Chief Financial Officer Pursuant to Rule 13a14(a) or 15d14(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* | The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended August 3, 2019, formatted, in Inline XBRL (included in Exhibit 101) |

* 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 11, 2019 | FOOT LOCKER, INC. |
| | /s/ Lauren B. Peters |
| | LAUREN B. PETERS |
| | Executive Vice President and Chief Financial Officer |

**AMENDMENT NUMBER FOUR**

**TO THE**

**FOOT LOCKER SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN**

**WHEREAS**, Foot Locker, Inc. (the "Company") maintains the Foot Locker Supplemental Executive Retirement Plan, as amended and restated as of January 1, 2005 (the "Plan");

**WHEREAS**, pursuant to Section 18 of the Plan, the Board of Directors of the Company (the "Board") may amend the Plan;

**WHEREAS**, the Board resolved on May 22, 2019 to (1) freeze the Plan in stages, (2) modify the interest crediting rate under the Plan that will apply after 2022, (3) adopt Amendment No. 3 to the Plan substantially in the form attached to the Board's resolutions, and (4) authorize, empower, and direct the Appropriate Officers to take all actions and to execute and deliver all documents and agreements, notices, and instruments deemed by them to be necessary or desirable in effectuating the adoption of Amendment No. 3 to the Plan and the intent of the resolutions;

**WHEREAS**, the Company executed Amendment No. 3 to the Plan pursuant to the Board's resolutions; and

**WHEREAS**, the Company desires to amend the Plan to clarify that with respect to any Plan Year (as defined in the Plan) that begins on or after January 1, 2023, no Participant shall be eligible to receive Awards (as defined in the Plan) or to have any Awards (as defined in the Plan) credited to his or her account (other than interest), and Participants are subject to the modified interest credit rate.

**NOW, THEREFORE**, the Plan is hereby amended and clarified as follows:

1. Section 1 of the Plan is hereby clarified by replacing the last two sentences thereof with the following language:

Effective as of January 1, 2019, an Employee who was not a Participant in the Plan on December 31, 2018 shall not become eligible to become a Participant under the Plan. Effective as of December 31, 2022, all Participants shall cease to be eligible to receive Awards under the Plan (however, interest credit shall continue to accrue as provided herein) with respect to any Plan Year that begins on or after January 1, 2023.

2. Section 3 of the Plan is hereby clarified by replacing the last three sentences thereof with the following language:

Notwithstanding anything herein to the contrary, effective as of January 1, 2019, no Employee who was not a Participant in the Plan on December 31, 2018, shall become a Participant in the Plan or become eligible to receive an Award. Effective as of January 1, 2019, an Employee who is rehired on or after such date shall not be eligible to become a Participant in the Plan and any such rehired Employee who previously became a Participant in the Plan shall not receive any Awards on or after the date of rehire, regardless of any prior Plan eligibility or participation. Effective as of December 31, 2022, all Participants shall cease to be eligible to receive Awards under the Plan with respect to any Plan Year that begins on or after January 1, 2023.

3. Section 5 of the Plan is hereby clarified to read in its entirety as follows:

The Award credited on a Participant's behalf, calculated in accordance with Section 4 hereof, shall be credited to the Participant's Account. Notwithstanding anything herein to the contrary, effective as of December 31, 2022, and solely with respect to any Plan Year that begins on or after January 1, 2023, all Participants shall cease to be eligible to receive Awards under the Plan and shall cease to have his or her Account credited with respect to any Award (however, interest credit shall continue to accrue as provided herein). For the avoidance of doubt, a Participant shall remain eligible to have credited to his or her Account any Awards granted with respect to the Plan Year that begins in 2022.

With respect to any Plan Year that begins prior to January 1, 2023, a Participant's Account shall accrue simple interest at a rate of six percent (6%) per annum. With respect to any Plan Year that begins on or after January 1, 2023, a Participant's Account shall accrue simple interest per annum at a rate of one hundred twenty percent (120%) of the annually compounded long-term applicable federal rate determined in accordance with Section 1274(d) of the Code, as published by the Internal Revenue Service as of the December of the prior Plan Year.

**IN WITNESS WHEREOF**, the Company has caused this amendment to be executed this 10 day of September, 2019.

FOOT LOCKER, INC.

By: /s/ Elizabeth Norberg

Title: SVP, Chief Human Resource Officer

**ACCOUNTANTS' ACKNOWLEDGEMENT**

The Board of Directors
Foot Locker, Inc.:

We hereby acknowledge our awareness of the use of our report dated September 11, 2019 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(c) under the Securities Act of 1933 (the Act), such report is not considered a part of the 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 11, 2019

**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 11, 2019

/s/ Richard A. Johnson
Chief Executive Officer

**Exhibit 31.2**

**CERTIFICATION**

I, Lauren B. Peters, 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 11, 2019

/s/ Lauren B. Peters
Chief Financial Officer

**Exhibit 32**

**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 August 3, 2019, 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 Lauren B. Peters, 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 11, 2019

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

/s/ Lauren B. Peters
Lauren B. Peters
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.

**Exhibit 99**

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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 August 3, 2019 and August 4, 2018, the related condensed consolidated statements of operations and comprehensive income for the thirteen and twenty-six week periods ended August 3, 2019 and August 4, 2018, the related condensed consolidated statements of changes in shareholders' equity for the thirteen and twenty-six week periods ended August 3, 2019 and August 4, 2018 and cash flows for the twenty-six week periods ended August 3, 2019 and August 4, 2018, 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 February 2, 2019, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated April 2, 2019, 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 February 2, 2019, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

*Change in Accounting Principle*

As discussed in Note 1 to the consolidated interim financial information, the Company changed its method of accounting for leases in 2019 due to the adoption of ASU No. 2016-02, Leases (Topic 842), as amended, effective February 3, 2019, using the optional transition method.

*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 11, 2019