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: October 29, 2022

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
(State or other jurisdiction of incorporation or organization)

13-3513936
(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 November 25, 2022: 93,320,427

FOOT LOCKER, INC.

TABLE OF CONTENTS

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words such as "believes," "expects," "anticipates," "estimates," "intends," "plans," "seeks," "continues," "feels," "forecasts," or words of similar meaning, or future or conditional verbs, such as "will," "should," "could," "may," "aims," "intends," or "projects." Statements may be forward looking even in the absence of these particular words.

Examples of forward-looking statements include, but are not limited to, statements regarding our financial position, business strategy, and other plans and objectives for our future operations, and generation of free cash flow. These forward-looking statements are based on our current expectations and beliefs concerning future developments and their potential effect on us. The forward-looking statements contained herein are largely based on our expectations for the future, which reflect certain estimates and assumptions made by our management. These estimates and assumptions reflect our best judgment based on currently known market conditions, operating trends, and other factors. Although we believe such estimates and assumptions to be reasonable, they are inherently uncertain and involve a number of risks and uncertainties that are beyond our control. As such, management's assumptions about future events may prove to be inaccurate.

We do not intend to publicly update or revise any forward-looking statements as a result of new information, future events, changes in circumstances, or otherwise. These cautionary statements qualify all forward-looking statements attributable to us, or persons acting on our behalf. Management cautions you that the forward-looking statements contained herein are not guarantees of future performance, and we cannot assure you that such statements will be realized or that the events and circumstances they describe will occur. Factors that could cause actual results to differ materially from those anticipated or implied in the forward-looking statements herein include, but are not limited to, a change in the relationship with any of our key suppliers, including the unavailability of premium products at competitive prices, volume discounts, cooperative advertising, markdown allowances, or ability to cancel orders and return merchandise; our ability to fund our planned capital investments; volatility in the financial markets or other global economic factors; difficulties in appropriately allocating capital and resources among our strategic opportunities; our ability to realize the expected benefits from acquisitions; business opportunities and expansion; investments; expenses; dividends; share repurchases; liquidity; cash flow from operations; use of cash and cash requirements; borrowing capacity; repatriation of cash to the United States; supply chain issues, including delays in merchandise receipts and increasing cost pressure caused by higher oceanic shipping and freight costs; labor shortages; expectations regarding increased wages; inflation; consumer spending levels; the effect of governmental assistance programs; social unrest; continuing risks relating to the effects of the COVID-19 pandemic, including vaccines and safety protocols; expectations regarding increasing global taxes; the effect of increased government regulation and changes in law; the effect of the adverse outcome of any material litigation against us or judicial decisions that affect us or our industry generally; the effects of weather; climate change; ESG risks; increased competition; geopolitical events; the financial effect of accounting regulations and critical accounting policies; credit risk relating to the risk of loss as a result of non-performance by our counterparties; and any other factors set forth in the section entitled "Risk Factors" of our most recent Annual Report on Form 10-K.

All written and oral forward-looking statements attributable to us are expressly qualified in their entirety by this cautionary statement. A forward-looking statement is neither a prediction nor a guarantee of future events or circumstances, and those future events or circumstances may not occur. You should not place undue reliance on forward-looking statements, which speak to our views only as of the date of this filing. Additional risks and uncertainties that we do not presently know about or that we currently consider to be insignificant may also affect our business operations and financial performance.

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

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

FOOT LOCKER, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

($ in millions, except share amounts)	October 29, 2022	October 30, 2021	January 29, 2022*
ASSETS			
Current assets:			
Cash and cash equivalents	**$ 351**	$ 1,339	$ 804
Merchandise inventories	**1,685**	1,301	1,266
Other current assets	**302**	253	293
	2,338	2,893	2,363
Property and equipment, net	**897**	860	917
Operating lease right-of-use assets	**2,449**	2,619	2,616
Deferred taxes	**65**	95	86
Goodwill	**764**	651	797
Other intangible assets, net	**424**	235	454
Minority investments	**722**	762	781
Other assets	**103**	96	121
	$ 7,762	$ 8,211	$ 8,135
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	**$ 522**	$ 578	$ 596
Accrued and other liabilities	**455**	498	561
Current portion of debt and obligations under finance leases	**6**	104	6
Current portion of lease obligations	**539**	577	572
	1,522	1,757	1,735
Long-term debt and obligations under finance leases	**448**	456	451
Long-term lease obligations	**2,212**	2,421	2,363
Other liabilities	**321**	235	343
Total liabilities	**4,503**	4,869	4,892
Commitments and contingencies			
Shareholders' equity:			
Common stock and paid-in capital: 99,338,704; 104,541,760; and 99,070,796 shares issued, respectively	**798**	806	770
Retained earnings	**3,110**	3,044	2,900
Accumulated other comprehensive loss	**(443)**	(343)	(343)
Less: Treasury stock at cost: 6,018,983; 3,473,932; and 2,050,000 shares, respectively	**(213)**	(170)	(88)
Noncontrolling interest	**7**	5	4
Total shareholders' equity	**3,259**	3,342	3,243
	$ 7,762	$ 8,211	$ 8,135

* The balance sheet at January 29, 2022 has been derived from the previously reported audited consolidated financial statements at that date, but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in Foot Locker, Inc.'s Annual Report on Form 10-K for the year ended January 29, 2022.

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

FOOT LOCKER, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Thirteen weeks ended		Thirty-nine weeks ended	
($ in millions, except per share amounts)	**October 29, 2022**	**October 30, 2021**	**October 29, 2022**	**October 30, 2021**
Sales	**$ 2,173**	$ 2,189	**$ 6,413**	$ 6,617
Cost of sales	**1,477**	1,429	**4,323**	4,310
Selling, general and administrative expenses	**467**	458	**1,382**	1,326
Depreciation and amortization	**52**	49	**157**	142
Impairment and other charges	**20**	57	**38**	97
Income from operations	**157**	196	**513**	742
Interest expense, net	**(3)**	(4)	**(13)**	(8)
Other income / (expense), net	**(11)**	30	**(24)**	359
Income before income taxes	**143**	222	**476**	1,093
Income tax expense	**47**	64	**154**	303
Net income	**96**	158	**322**	790
Net loss attributable to noncontrolling interests	**—**	—	**1**	—
Net income attributable to Foot Locker, Inc.	**$ 96**	$ 158	**$ 323**	$ 790
Basic earnings per share	**$ 1.02**	$ 1.53	**$ 3.41**	$ 7.63
Weighted-average shares outstanding	**93.4**	103.2	**94.6**	103.5
Diluted earnings per share	**$ 1.01**	$ 1.52	**$ 3.38**	$ 7.54
Weighted-average shares outstanding, assuming dilution	**94.7**	104.4	**95.7**	104.9

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

FOOT LOCKER, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

($ in millions)	Thirteen weeks ended October 29, 2022	Thirteen weeks ended October 30, 2021	Thirty-nine weeks ended October 29, 2022	Thirty-nine weeks ended October 30, 2021
Net income attributable to Foot Locker, Inc.	**$ 96**	$ 158	**$ 323**	$ 790
Other comprehensive income (loss), net of income tax				
Foreign currency translation adjustment:				
Translation adjustment arising during the period, net of income tax (benefit)/expense of $-, $(2), $(1) and $(1), respectively	**(29)**	(7)	**(104)**	(17)
Hedges contracts:				
Change in fair value of derivatives, net of income tax benefit of $(1), $-, $(1), and $-, respectively	**(1)**	1	**(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, $1, $2 and $2, respectively	**3**	1	**7**	4
Comprehensive income	**$ 69**	$ 153	**$ 223**	$ 778

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

FOOT LOCKER, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

Thirteen weeks ended	Additional Paid-In Capital & Common Stock		Treasury Stock		Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling interests	Total Shareholders' Equity
(shares in thousands, amounts in millions)	Shares	Amount	Shares	Amount				
Balance at July 30, 2022	**99,319**	**$ 788**	**(6,018)**	**$ (213)**	**$ 3,051**	**$ (416)**	**$ 7**	**$ 3,217**
Restricted stock issued	2							—
Issued under director and stock plans	18	1						1
Share-based compensation expense		9						9
Shares of common stock used to satisfy tax withholding obligations			(1)					—
Net income					96			96
Cash dividends on common stock ($0.40 per share)					(37)			(37)
Translation adjustment, net of tax						(29)		(29)
Change in hedges, net of tax						(1)		(1)
Pension and postretirement adjustments, net of tax						3		3
Balance at October 29, 2022	**99,339**	**$ 798**	**(6,019)**	**$ (213)**	**$ 3,110**	**$ (443)**	**$ 7**	**$ 3,259**
Balance at July 31, 2021	**104,516**	**$ 799**	**(714)**	**$ (41)**	**$ 2,916**	**$ (338)**	**$ 5**	**$ 3,341**
Restricted stock issued	19	—						—
Issued under director and stock plans	7	—						—
Share-based compensation expense		7						7
Shares of common stock used to satisfy tax withholding obligations			(10)					—
Share repurchases			(2,750)	(129)				(129)
Net income					158			158
Cash dividends on common stock ($0.30 per share)					(30)			(30)
Translation adjustment, net of tax						(7)		(7)
Change in hedges, net of tax						1		1
Pension and postretirement adjustments, net of tax						1		1
Balance at October 30, 2021	**104,542**	**$ 806**	**(3,474)**	**$ (170)**	**$ 3,044**	**$ (343)**	**$ 5**	**$ 3,342**

Thirty-nine weeks ended	Additional Paid-In Capital & Common Stock		Treasury Stock		Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling interests	Total Shareholders' Equity
(shares in thousands, amounts in millions)	Shares	Amount	Shares	Amount				
Balance at January 29, 2022	**99,071**	**$ 770**	**(2,050)**	**$ (88)**	**$ 2,900**	**$ (343)**	**$ 4**	**$ 3,243**
Restricted stock issued	113							—
Issued under director and stock plans	155	5						5
Share-based compensation expense		25						25
Shares of common stock used to satisfy tax withholding obligations			(39)	(1)				(1)
Share repurchases			(4,050)	(129)				(129)
Reissued for Employee Stock Purchase Plan ("ESPP")		(2)	120	5				3
Noncontrolling interest capital contribution							4	4
Net income					323		(1)	322
Cash dividends on common stock ($1.20 per share)					(113)			(113)
Translation adjustment, net of tax						(104)		(104)
Change in hedges, net of tax						(3)		(3)
Pension and postretirement adjustments, net of tax						7		7
Balance at October 29, 2022	**99,339**	**$ 798**	**(6,019)**	**$ (213)**	**$ 3,110**	**$ (443)**	**$ 7**	**$ 3,259**
Balance at January 30, 2021	**103,693**	**$ 779**	**(74)**	**$ (3)**	**$ 2,326**	**$ (331)**	**$ 5**	**$ 2,776**
Restricted stock issued	498							—
Issued under director and stock plans	351	11						11
Share-based compensation expense		23						23
Shares of common stock used to satisfy tax withholding obligations			(205)	(11)				(11)
Share repurchases			(3,496)	(170)				(170)
Reissued for ESPP		(7)	301	14				7
Net income					790			790
Cash dividends on common stock ($0.70 per share)					(72)			(72)
Translation adjustment, net of tax						(17)		(17)
Change in hedges, net of tax						1		1
Pension and postretirement adjustments, net of tax						4		4
Balance at October 30, 2021	**104,542**	**$ 806**	**(3,474)**	**$ (170)**	**$ 3,044**	**$ (343)**	**$ 5**	**$ 3,342**

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

FOOT LOCKER, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

($ in millions)	Thirty-nine weeks ended October 29, 2022	October 30, 2021
From operating activities:		
Net income	**$ 322**	$ 790
Adjustments to reconcile net income to net cash from operating activities:		
Non-cash impairment and other charges	**5**	88
Fair value adjustments to minority investments	**52**	(340)
Depreciation and amortization	**157**	142
Deferred income taxes	**14**	57
Share-based compensation expense	**25**	23
Gain on disposal of business	**(19)**	—
Change in assets and liabilities:		
Merchandise inventories	**(466)**	(306)
Accounts payable	**(58)**	122
Accrued and other liabilities	**(46)**	16
Insurance recovery received for inventory loss	**—**	8
Other, net	**(18)**	(102)
Net cash (used in) / provided by operating activities	**(32)**	498
From investing activities:		
Capital expenditures	**(218)**	(137)
Purchase of business, net of cash acquired	**(18)**	(737)
Minority investments	**(5)**	(115)
Proceeds from sale of business	**47**	—
Proceeds from minority investments	**12**	—
Proceeds from sale of property	**—**	3
Insurance proceeds related to loss on property and equipment	**—**	3
Net cash used in investing activities	**(182)**	(983)
From financing activities:		
Proceeds from debt issuance, net	**—**	395
Payment of debt issuance costs	**—**	(2)
Purchase of treasury shares	**(129)**	(170)
Dividends paid on common stock	**(113)**	(72)
Payment of obligations under finance leases	**(5)**	(3)
Shares of common stock repurchased to satisfy tax withholding obligations	**(1)**	(11)
Treasury stock reissued under employee stock plan	**3**	7
Proceeds from exercise of stock options	**4**	10
Contribution from non-controlling interest	**4**	—
Net cash (used in) / provided by financing activities	**(237)**	154
Effect of exchange rate fluctuations on cash, cash equivalents, and restricted cash	**(6)**	(2)
Net change in cash, cash equivalents, and restricted cash	**(457)**	(333)
Cash, cash equivalents, and restricted cash at beginning of year	**850**	1,718
Cash, cash equivalents, and restricted cash at end of period	**$ 393**	$ 1,385
Cash paid during the year:		
Interest	**$ 17**	$ 7
Income taxes	**$ 131**	$ 313
Cash paid for amounts included in measurement of operating lease liabilities	**$ 527**	$ 527
Cash paid for amounts included in measurement of finance lease liabilities	**$ 7**	$ 3
Non-cash investing activities:		
Right-of-use assets obtained in exchange for operating lease obligations	**$ 363**	$ 242
Assets obtained in exchange for finance lease obligations	**$ 1**	$ 4

See Accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated financial statements contained in this report are unaudited. In the opinion of management, the condensed consolidated financial statements include all normal, recurring adjustments necessary for a fair presentation of the results for the interim periods presented. As used in these Notes to the Unaudited Condensed Consolidated Financial Statements, the terms “Foot Locker,” “Company,” “we,” “our,” and “us” refer to Foot Locker, Inc. and its consolidated subsidiaries.

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires us to make estimates and assumptions that affect the amounts reported in the accompanying Unaudited Condensed Consolidated Financial Statements and these Notes and related disclosures. Actual results may differ from those estimates. The results of operations for any interim period are not necessarily indicative of the results expected for the year.

The results of operations for the period ended October 29, 2022 are not necessarily indicative of the results to be expected for the full fiscal year due to the continued uncertainty of general economic conditions that may affect us for the remainder of 2022.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Notes to Consolidated Financial Statements contained in our 2021 Form 10-K.

There were no significant changes to the policies disclosed in Note 1, *Summary of Significant Accounting Policies* of our 2021 Form 10-K.

Recent Accounting Pronouncements

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

2. Acquisitions

In 2021, we acquired WSS and atmos, two businesses that will allow us to further differentiate our product offerings, as well as our customer base, and diversify our retail store and omnichannel portfolio.

WSS

During the thirty-nine weeks ended October 29, 2022, we paid an additional $4 million upon the finalization of the value of net assets acquired, with a corresponding increase to goodwill as compared with the amounts presented in the most recent annual report. The aggregate purchase price for the acquisition has increased to $811 million ($741 million, net of cash acquired). During the third quarter of 2022, we recorded changes to the value of net assets acquired related to income tax balances.

2. Acquisitions (continued)

The following table represents the final allocation of the purchase price for WSS.

($ in millions)		
Assets acquired:		
Cash and cash equivalents	$	70
Merchandise inventories		82
Other current assets		10
Property and equipment, net		133
Operating lease right-of-use assets		143
Tradenames		296
Customer relationships		13
Other assets		4
Liabilities assumed:		
Accounts payable and accrued liabilities	$	(59)
Current portion of obligations under finance leases		(3)
Current portion of lease obligations		(19)
Long-term portion of obligations under finance leases		(50)
Long-term lease obligations		(127)
Deferred taxes		(87)
Other liabilities		(4)
Goodwill		409
Total purchase price	$	811

atmos

During the thirteen and thirty-nine weeks ended October 29, 2022, we paid an additional $6 million and $14 million, respectively, in connection with the finalization of certain post-closing conditions. The aggregate purchase price for the acquisition has increased to $374 million, subject to additional adjustments for the finalization of the value of net assets acquired and other post-closing matters. The preliminary purchase price includes contingent consideration initially measured at $35 million, which can reach up to $111 million based on achieving certain revenue growth and EBITDA performance targets. The fair value of the contingent consideration has not changed from the initial measurement. The preliminary purchase price does not yet reflect the finalization of the net working capital provisions and other post-closing adjustments. At closing, we placed $30 million in escrow, of which $10 million related to net working capital adjustments and $20 million related to certain indemnifications. The net working capital adjustment will be finalized during the fourth quarter and the indemnification escrow will be released in May 2023, unless there is a pending claim.

The following table represents the preliminary allocation of the purchase price for atmos and includes fair value adjustments to certain assets and liabilities since our most recent annual report. Changes to amounts reported at year end included a $14 million increase in goodwill due to the additional purchase price, a $5 million downward valuation of intangible assets, and other changes of $2 million. These adjustments did not have a significant effect on the consolidated results of operations. We determined that the atmos tradenames will have an indefinite life and will not be amortized.

We are assessing the tax deductibility of the goodwill related to the acquisition.

2. Acquisitions (continued)

The following table represents the preliminary allocation of the purchase price for atmos.

($ in millions)		
Assets acquired:		
Cash and cash equivalents	**$**	**6**
Merchandise inventories		**22**
Other current assets		**12**
Property and equipment, net		**7**
Operating lease right-of-use assets		**44**
Tradenames		**130**
Customer relationships		**9**
Other assets		**6**
Liabilities assumed:		
Accounts payable	**$**	**(10)**
Current portion of lease obligations		**(10)**
Other current liabilities		**(8)**
Long-term lease obligations		**(35)**
Deferred taxes		**(44)**
Other liabilities		**(8)**
Goodwill (1)		**253**
Total purchase price (2)	**$**	**374**

(1) Goodwill represented on this table is at the exchange rate in effect as of the date of acquisition.
(2) Total purchase price consists of $339 million in cash and $35 million of contingent consideration.

3. Revenue

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

	Thirteen weeks ended		Thirty-nine weeks ended	
($ in millions)	October 29, 2022	October 30, 2021	October 29, 2022	October 30, 2021
Sales by Channel				
Stores	**$ 1,818**	$ 1,756	**$ 5,310**	$ 5,193
Direct-to-customers	**355**	433	**1,103**	1,424
Total sales	**$ 2,173**	$ 2,189	**$ 6,413**	$ 6,617

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

	Thirteen weeks ended		Thirty-nine weeks ended	
($ in millions)	October 29, 2022	October 30, 2021	October 29, 2022	October 30, 2021
Sales by Geography				
United States	**$ 1,500**	$ 1,524	**$ 4,423**	$ 4,860
International	**673**	665	**1,990**	1,757
Total sales	**$ 2,173**	$ 2,189	**$ 6,413**	$ 6,617

3. Revenue (continued)

Contract Liabilities

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

($ in millions)	October 29, 2022	October 30, 2021
Gift card liability at beginning of year	**$ 46**	$ 41
Liabilities acquired - WSS	**—**	1
Redemptions	**(187)**	(187)
Breakage recognized in sales	**(12)**	(13)
Activations	**178**	192
Gift card liability	**$ 25**	$ 34

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

4. Segment Information

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

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

	Thirteen weeks ended		Thirty-nine weeks ended	
($ in millions)	October 29, 2022	October 30, 2021	October 29, 2022	October 30, 2021
Sales	**$ 2,173**	$ 2,189	**$ 6,413**	$ 6,617
Operating Results				
Division profit	**216**	283	**$ 660**	$ 930
Less: Impairment and other charges (1)	**20**	57	**38**	97
Less: Corporate expense (2)	**39**	30	**109**	91
Income from operations	**157**	196	**513**	742
Interest expense, net	**(3)**	(4)	**(13)**	(8)
Other income / (expense), net (3)	**(11)**	30	**(24)**	359
Income before income taxes	**$ 143**	$ 222	**$ 476**	$ 1,093

(1) See Note 5, *Impairment and Other Charges* for further detail.
(2) Corporate expense consists of unallocated selling, general and administrative expenses, as well as depreciation and amortization related to our corporate headquarters, centrally managed departments, unallocated insurance and benefit programs, certain foreign exchange transaction gains and losses, and other items.
(3) Other income / (expense), net for the thirteen weeks and thirty-nine weeks ended October 29, 2022 represented primarily the loss on the change in fair value of our investment in Retailors, Ltd., a publicly-listed entity, which was partially offset by other income. See Note 6, *Other Income / (Expense), net.*

5. Impairment and Other Charges

	Thirteen weeks ended		Thirty-nine weeks ended	
($ in millions)	October 29, 2022	October 30, 2021	October 29, 2022	October 30, 2021
Transformation consulting	$ 17	$ —	$ 27	$ —
Impairment of long-lived assets and right-of-use assets	—	13	5	52
Acquisition and integration costs	1	14	4	14
Reorganization costs	2	—	2	2
Impairment of investments	—	30	—	32
Lease termination costs	—	—	—	4
Insurance recovery	—	—	—	(7)
Total impairment and other charges	$ 20	$ 57	$ 38	$ 97

For the thirteen and thirty-nine weeks ended October 29, 2022, we incurred $17 million and $27 million of transformation consulting expense, respectively. We recorded $1 million and $4 million in acquisition and integration costs related to WSS and atmos for the thirteen and thirty-nine weeks ended October 29, 2022, respectively. We recorded reorganization costs, primarily severance, of $2 million for both the thirteen and thirty-nine weeks ended October 29, 2022, related to the announced closure of a North American distribution center. Additionally, we recorded impairment charges of $5 million related to long-lived assets and right-of-use assets, as well as accelerated tenancy charges for the thirty-nine weeks ended October 29, 2022.

For the thirteen and thirty-nine weeks ended October 30, 2021 we recorded $13 million and $52 million of impairment charges related to the decision to exit the Footaction banner, respectively. Impairment of investments was $30 million and $32 million for the thirteen and thirty-nine weeks ended October 30, 2021, respectively, due to continued losses and updated estimates of value. In connection with the acquisitions, we recorded costs of $14 million, for the thirteen and thirty-nine weeks ended October 30, 2021. We recorded charges of $4 million in lease-related termination costs, and a severance charge of $2 million in connection with the reorganization of certain support functions, offset by $7 million of insurance recovery income related to 2020 social unrest losses for the thirty-nine weeks ended October 30, 2021.

6. Other Income / (Expense), net

Effective June 27, 2022, the Company reached a definitive agreement to sell all assets related to the Eastbay Team Sales business, consisting primarily of inventory and accounts receivable. During the second quarter, we received proceeds of $47 million from the transaction. During the third quarter we finalized the net assets sold to purchasers increasing the gain to $19 million for the thirty-nine weeks ended October 29, 2022.

7. Cash, Cash Equivalents, and Restricted Cash

The table below provides a reconciliation of cash and cash equivalents, as reported on our Condensed Consolidated Balance Sheets, to cash, cash equivalents, and restricted cash, as reported on our Condensed Consolidated Statements of Cash Flows.

($ in millions)	October 29, 2022	October 30, 2021
Cash and cash equivalents	$ 351	$ 1,339
Restricted cash included in other current assets	14	9
Restricted cash included in other non-current assets	28	37
Cash, cash equivalents, and restricted cash	$ 393	$ 1,385

7. Cash, Cash Equivalents, and Restricted Cash (continued)

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

8. Goodwill

See footnote 2, *Acquisitions*, for additional information on our recent acquisitions.

In conjunction with the sale of the Eastbay Team Sales business, we allocated $6 million of goodwill to the assets sold, representing the allocable share of the fair value of the reporting unit disposed of.

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

9. Other Intangible Assets, net

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

	October 29, 2022			October 30, 2021		
($ in millions)	Gross value	Accum. amort.	Net value	Gross value	Accum. amort.	Net value
Amortized intangible assets: (1)						
Lease acquisition costs	**$ 94**	**$ (92)**	**$ 2**	$ 112	$ (108)	$ 4
Trademarks/tradenames (2)	**18**	**(18)**	**—**	20	(18)	2
Customer lists	**20**	**(7)**	**13**	—	—	—
	$ 132	**$ (117)**	**$ 15**	$ 132	$ (126)	$ 6
Indefinite life intangible assets: (1)						
Trademarks/tradenames			**$ 409**			$ 229
Other intangible assets, net			**$ 424**			$ 235

(1) The change in the ending balances also reflects the effect of foreign currency fluctuations due primarily to movements of the euro in relation to the U.S. dollar.
(2) During the fourth quarter of 2021, we recorded a non-cash impairment charge related to the Footaction tradename.

In connection with the acquisitions of WSS and atmos, we recognized indefinite life intangible assets of $296 million for WSS related tradenames and $130 million for atmos related tradenames. Additionally, we recognized customer list intangible assets of $13 million for WSS and $9 million for atmos, both of which will be amortized over 3 years. The intangibles related to atmos were originally recorded at the exchange rate in effect as of the date of acquisition and are presented in the above table at current period exchange rates. Amortizing intangible assets primarily represent the WSS and atmos customer lists, and lease acquisition costs, which are amounts that are required to secure prime lease locations and other lease rights, primarily in Europe.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

9. Other Intangible Assets, net (continued)

Amortization expense recorded is as follows:

	Thirteen weeks ended		Thirty-nine weeks ended	
($ in millions)	**October 29, 2022**	**October 30, 2021**	**October 29, 2022**	**October 30, 2021**
Amortization expense	**$ 2**	$ —	**$ 7**	$ 2

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

($ in millions)	
Remainder of 2022	$ 2
2023	7
2024	5
2025	1

10. Accumulated Other Comprehensive Loss

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

($ in millions)	**October 29, 2022**	**October 30, 2021**	**January 29, 2022**
Foreign currency translation adjustments	**$ (211)**	$ (81)	$ (107)
Hedge contracts	**(3)**	—	—
Unrecognized pension cost and postretirement benefit	**(229)**	(262)	(236)
	$ (443)	$ (343)	$ (343)

The changes in AOCL for the thirty-nine weeks ended October 29, 2022 were as follows:

($ in millions)	**Foreign Currency Translation Adjustments**	**Hedge Contracts**	**Items Related to Pension and Postretirement Benefits**	**Total**
Balance as of January 29, 2022	$ (107)	—	$ (236)	$ (343)
OCI before reclassification	(104)	5	1	(98)
Reclassification of hedges, net of tax	—	(8)	—	(8)
Amortization of pension actuarial loss, net of tax	—	—	6	6
Other comprehensive income	(104)	(3)	7	(100)
Balance as of October 29, 2022	**$ (211)**	**$ (3)**	**$ (229)**	**$ (443)**

10. Accumulated Other Comprehensive Loss (continued)

Reclassifications from AOCL for the thirty-nine weeks ended October 29, 2022 were as follows:

($ in millions)		
Reclassification of hedge loss:		
Cross-currency swap	$	(9)
Income tax		1
Reclassification of hedges, net of tax	$	(8)
Amortization of actuarial loss:		
Pension benefits	$	8
Income tax benefit		(2)
Amortization of actuarial loss, net of tax	$	6
Total, net of tax	$	(2)

11. Financial Instruments and Risk Management

Fair Value Hedge

On May 6, 2022, we entered into a cross-currency swap contract to reduce the effect of the fluctuating U.S. Dollar ("USD") to Japanese Yen ("JPY") foreign exchange rate on our foreign currency-denominated intercompany loan between our Japanese and U.S. subsidiary. We expect the gains and losses on this contract to offset losses and gains on the hedged transaction in an effort to reduce the earnings volatility resulting from the remeasurement of the principal and interest accrued on the loan. Though the intercompany loan eliminates in consolidation, the foreign currency remeasurement of the loan and interest by the U.S. subsidiary is reflected in the consolidated financial statements.

The cross-currency swap contract has a notional amount of JPY 11 billion and final receipt of $85 million. The cross-currency swap contract, which matures on November 2, 2031, swaps Yen-denominated interest payments for U.S. dollar-denominated interest payments, thereby economically converting the JPY 11 billion fixed-rate 3.51% intercompany loan to a fixed-rate 6.77% USD-denominated receivable for our U.S. subsidiary.

We designated the cross-currency swap contract to hedge the changes in value of the intercompany loan and its variability on earnings. We will apply fair value hedge accounting, and we will consider market factors other than the change in the spot exchange rate on the notional amount of the swap to be excluded components. The foreign currency spot rate fluctuations on the cross-currency swap notional amount and interest accruals are reported in earnings each period, while all other changes are reported in other comprehensive income. Because the terms of the hedged item and the hedging instrument match and the likelihood of swap counterparty default is not probable, the hedge is expected to exactly offset changes in the fair value of the foreign currency debt resulting from to foreign currency fluctuations over the term of the swap.

As of October 29, 2022, the cross-currency swap had a fair value of $4 million and was included in other assets. We record the changes in the fair value of the contract to AOCL. Each period, we reclassify an amount out of AOCL equal to the remeasurement gain or loss on the hedged intercompany loan that is recorded in selling, general and administrative expenses. As of October 29, 2022, there was $4 million in AOCL, net of tax, related to the cross-currency swap. In addition, we recognize swap interest income based on the differential in fixed interest rates per the contract. For the thirteen and thirty-nine weeks ended October 29, 2022, we recorded $1 million and $2 million of income in interest expense, net, respectively. Refer to Note 10 for further information regarding amounts recorded in AOCL.

12. Fair Value Measurements

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

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

Level 2 – Observable inputs other than quoted prices included within Level 1, including quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs or significant value-drivers are observable in active markets.

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

In 2021, we invested $68 million to take a common stock minority stake in a public entity, Retailors, Ltd, which is traded on the Tel Aviv stock exchange. This investment is classified as a Level 1 instrument since the fair value is readily available in an active market.

The fair value of the auction rate security, classified as available-for-sale, is determined by using quoted prices for similar instruments in active markets and accordingly is classified as a Level 2 instrument.

The fair value of the contingent consideration liability associated with the atmos acquisition is estimated using an option pricing model simulation that determines an average projected payment value across numerous iterations.

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

($ in millions)	As of October 29, 2022			As of October 30, 2021		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Assets						
Minority investment in common stock	**$ 93**	**$ —**	**$ —**	$ 118	$ —	$ —
Available-for-sale security	**—**	**5**	**—**	—	7	—
Foreign exchange forward contracts	**—**	**2**	**—**	—	—	—
Cross-currency swap contract	**—**	**4**	**—**	—	—	—
Total assets	**$ 93**	**$ 11**	**$ —**	$ 118	$ 7	$ **—**
Liabilities						
Contingent consideration	**$ —**	**$ —**	**$ 35**	$ —	$ —	$ —
Foreign exchange forward contracts	**—**	**—**	**—**	—	1	—
Total liabilities	**$ —**	**$ —**	**$ 35**	$ —	$ 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.

12. Fair Value Measurements (continued)

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Assets and liabilities recognized or disclosed at fair value on the consolidated financial statements on a nonrecurring basis include items such as property, plant and equipment, operating lease right-of-use assets, goodwill, other intangible assets, and minority investments that are not accounted for under the equity method of accounting. These assets are measured using Level 3 inputs, if determined to be impaired. Minority investments measured using the fair value measurement alternative had a carrying value of $579 million and $618 million as of October 29, 2022 and October 30, 2021, respectively.

Long-Term Debt

The fair value of long-term debt is determined by using model-derived valuations in which all significant inputs or significant value drivers are observable in active markets and, therefore, are classified as Level 2. The balance as of October 29, 2022 includes the $400 million 4% Notes. The carrying value and estimated fair value of long-term debt were as follows:

($ in millions)	October 29, 2022	October 30, 2021
Carrying value (1)	**$ 395**	$ 492
Fair value	**$ 308**	$ 497

(1) The carrying value of debt as of October 29, 2022 reflects $5 million of issuer's discount and costs related to the 4% Notes.

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

13. Earnings Per Share

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

	Thirteen weeks ended		Thirty-nine weeks ended	
(in millions, except per share data)	October 29, 2022	October 30, 2021	October 29, 2022	October 30, 2021
Net income attributable to Foot Locker, Inc.	**$ 96**	$ 158	**$ 323**	$ 790
Weighted-average common shares outstanding	**93.4**	103.2	**94.6**	103.5
Dilutive effect of potential common shares	**1.3**	1.2	**1.1**	1.4
Weighted-average common shares outstanding assuming dilution	**94.7**	104.4	**95.7**	104.9
Earnings per share - basic	**$ 1.02**	$ 1.53	**$ 3.41**	$ 7.63
Earnings per share - diluted	**$ 1.01**	$ 1.52	**$ 3.38**	$ 7.54
Anti-dilutive share-based awards excluded from diluted calculation	**2.8**	1.8	**2.7**	1.8

13. Earnings Per Share (continued)

Performance stock units related to our long-term incentive programs of 0.8 million and 0.5 million have been excluded from diluted weighted-average shares for the periods ended October 29, 2022 and October 30, 2021, respectively. The issuance of these shares is contingent on our performance metrics as compared to the pre-established performance goals, which have not been achieved.

14. Pension

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

	Thirteen weeks ended		Thirty-nine weeks ended	
($ in millions)	**October 29, 2022**	**October 30, 2021**	**October 29, 2022**	**October 30, 2021**
Service cost	**$ 4**	$ 4	**$ 11**	$ 12
Interest cost	**5**	4	**15**	13
Expected return on plan assets	**(8)**	(9)	**(23)**	(26)
Amortization of net loss	**3**	3	**8**	8
Net benefit expense	**$ 4**	$ 2	**$ 11**	$ 7

15. Share-Based Compensation

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

	Thirteen weeks ended		Thirty-nine weeks ended	
($ in millions)	**October 29, 2022**	**October 30, 2021**	**October 29, 2022**	**October 30, 2021**
Options and employee stock purchase plan	**$ 1**	$ 1	**$ 4**	$ 5
Restricted stock units and performance stock units	**8**	6	**21**	18
Total share-based compensation expense	**$ 9**	$ 7	**$ 25**	$ 23
Tax benefit recognized	**$ —**	$ —	**$ 2**	$ 2

Valuation Model and Assumptions

We use the Black-Scholes option-pricing model to estimate the fair value of options and the stock purchase plan. The Black-Scholes option-pricing model incorporates various and subjective assumptions, including expected term and expected volatility.

15. Share-Based Compensation (continued)

The table below shows assumptions used to compute share-based compensation expense for awards granted during the thirty-nine weeks ended October 29, 2022 and October 30, 2021.

	Stock Option Plans		Stock Purchase Plan	
	October 29, 2022	**October 30, 2021**	**October 29, 2022**	**October 30, 2021**
Weighted-average risk free rate of interest	**1.7 %**	0.9 %	**0.7 %**	0.1 %
Expected volatility	**35.0 %**	47 %	**40 %**	45 %
Weighted-average expected award life (in years)	**3.8**	5.5	**1.0**	1.0
Dividend yield	**2.7 %**	1.5 %	**2.3 %**	4.4 %
Weighted-average fair value	**$ 10.71**	$ 20.22	**$ 20.51**	$ 8.78

The information in the table below provides activity under our stock option plans for the thirty-nine weeks ended October 29, 2022.

	Number of Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
	(in thousands)	(in years)	(per share)
Options outstanding at the beginning of the year	3,211		$ 48.84
Granted	576		31.53
Exercised	(134)		25.99
Expired or cancelled	(282)		42.62
Options outstanding at October 29, 2022	3,371	4.8	$ 47.31
Options exercisable at October 29, 2022	2,610	3.6	$ 51.82
Shares available for future grant at October 29, 2022 under the 2007 Stock Incentive Plan	2,822		
Shares available for future grant at October 29, 2022 under the employment inducement award plan [(1)]	546		

(1) On August 24, 2022, the Company granted options and other awards to its new President and Chief Executive Officer, Mary N. Dillon. These awards were granted outside of the 2007 Stock Incentive Plan as employment inducement awards and do not require shareholder approval under the rules of the New York Stock Exchange or otherwise. Shares available for future grant under this plan are reserved for the sole purpose to issue shares pursuant to her employment inducement awards.

The total fair value of options vested October 29, 2022 and October 30, 2021 was $4 million for both periods. The cash received from option exercises during the thirteen and thirty-nine weeks ended October 29, 2022 were $1 million and $4 million, respectively. The related tax benefits realized from option exercises during the thirteen and thirty-nine weeks ended October 29, 2022 were not significant. The cash received from option exercises during the thirteen and thirty-nine weeks ended October 30, 2021 were not significant and $10 million, respectively. The related tax benefits realized from option exercises during the thirteen and thirty-nine weeks ended October 30, 2021 were not significant and $2 million, respectively.

15. Share-Based Compensation (continued)

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

($ in millions)	Thirteen weeks ended October 29, 2022	Thirteen weeks ended October 30, 2021	Thirty-nine weeks ended October 29, 2022	Thirty-nine weeks ended October 30, 2021
Exercised	**$ —**	$ —	**$ 1**	$ 8

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

($ in millions)	Thirty-nine weeks ended October 29, 2022	Thirty-nine weeks ended October 30, 2021
Outstanding	**$ 7**	$ 25
Outstanding and exercisable	**$ 5**	$ 11

As of October 29, 2022, there was $4 million of total unrecognized compensation cost related to nonvested stock options which is expected to be recognized over a remaining weighted-average period of 1.5 years.

The table below summarizes information about stock options outstanding and exercisable at October 29, 2022

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	**Number Outstanding**	**Weighted-Average Remaining Contractual Life**	**Weighted-Average Exercise Price**	**Number Exercisable**	**Weighted-Average Exercise Price**
	(in thousands, except prices per share and contractual life)				
$21.60 - $36.51	1,241	7.1	$ 26.41	584	$ 24.22
$44.78 - $48.98	446	3.0	45.02	446	45.02
$53.61 - $58.94	501	5.5	56.69	397	57.44
$62.02 - $72.83	1,183	2.7	66.14	1,183	66.14
	3,371	4.8	$ 47.31	2,610	$ 51.82

Restricted Stock Units and Performance Stock Units

Restricted stock units (“RSU”) are awarded to certain officers, key employees of the Company, and nonemployee directors. Additionally, performance stock units (“PSU”) are awarded to officers and certain key employees in connection with our long-term incentive program. Each RSU and PSU represents the right to receive one share of our common stock provided that the applicable performance and vesting conditions are satisfied. PSU awards granted in 2022 also include a performance objective based on our relative total shareholder return over the performance period to a pre-determined peer group, assuming the reinvestment of dividends. The fair value of these awards is determined using a Monte Carlo simulation as of the date of the grant and share-based compensation expense will not be adjusted should the target awards vary from actual awards.

15. Share-Based Compensation (continued)

Generally, RSU awards fully vest after the passage of time, typically three years for employees and one year for nonemployee directors, provided there is continued service with the Company until the vesting date, subject to the terms of the award. PSU awards are earned only after the attainment of performance goals in connection with the relevant performance period and vest after an additional one-year period. No dividends are paid or accumulated on any RSU or PSU awards. Compensation expense is recognized over the vesting period.

RSU and PSU activity for the thirty-nine weeks ended October 29, 2022 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	1,391		$ 43.95
Granted	1,221		30.60
Vested	(112)		55.20
Performance adjustment (1)	(40)		
Forfeited	(314)		32.89
Nonvested at October 29, 2022	2,146	1.6	$ 37.15
Aggregate value ($ in millions)	$ 80		

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

The total value of RSU and PSU awards that vested during the thirty-nine weeks ended October 29, 2022 and October 30, 2021 was $6 million and $23 million, respectively. As of October 29, 2022, there was $37 million of total unrecognized compensation cost related to nonvested awards.

16. 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 is a defendant in a purported wage/hour and wage statement violation class action in California.

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

17. Subsequent Events

Subsequent to the end of the third quarter, the Company entered into an agreement to sell its shares in Retailors, Ltd. at a discount to the publicly traded value. We expect to receive net proceeds of approximately $84 million in the fourth quarter of 2022.

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

Business Overview

Foot Locker, Inc. leads the celebration of sneaker and youth culture around the globe through a portfolio of brands including Foot Locker, Lady Foot Locker, Kids Foot Locker, Champs Sports, Eastbay, atmos, WSS, Footaction, and Sidestep. As of October 29, 2022, we operated 2,794 primarily mall-based stores, as well as stores in high-traffic urban retail areas and high streets, in 28 countries across the United States, Canada, Europe, Australia, New Zealand, and Asia, as well as websites and mobile apps. Our purpose is to inspire and empower youth culture around the world, by fueling a shared passion for self-expression and creating unrivaled experiences at the heart of the global sneaker community.

We use our omni-channel capabilities to bridge the digital world and physical stores, including order-in-store, buy online and pickup-in-store, and buy online and ship-from-store, as well as e-commerce. We operate websites and mobile apps aligned with the brand names of our store banners including footlocker.com, kidsfootlocker.com, champssports.com, atmosusa.com, shopwss.com and related e-commerce sites in the various international countries that we operate. These sites offer some of the largest online product selections and provide a seamless link between e-commerce and physical stores. We also operate the website for eastbay.com.

Store Count

At October 29, 2022, we operated 2,794 stores as compared with 2,858 and 2,956 stores at January 29, 2022 and October 30, 2021, respectively.

Franchise Operations

A total of 155 franchised stores were operating at October 29, 2022, as compared with 142 and 136 stores at January 29, 2022 and October 30, 2021, respectively, operating in the Middle East and Asia. Revenue from franchised stores was not significant for any of the periods presented. These stores are not included in the operating store count above.

Leadership Transition

As part of a planned succession process, Richard A. Johnson retired as President and Chief Executive Officer, effective September 1, 2022. Mary N. Dillon, former Executive Chair and CEO of Ulta Beauty, Inc., was appointed President and Chief Executive Officer and a member of the Foot Locker Board, also effective September 1, 2022.

Reconciliation of Non-GAAP Measures

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

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

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

Effective with the first quarter of 2022, the calculation for non-GAAP earnings excludes gains and losses from all minority investments, including the adjustments related to the investment in Retailors, Ltd. We believe this is a more representative measure of our recurring earnings, assists in the comparability of results, and is consistent with how management reviews performance. The non-GAAP results for 2021 have been recast, as applicable, to conform to the current year's presentation. As we report quarterly results through 2022, we will provide updated non-GAAP reconciliations for the corresponding prior year's quarter under this revised definition.

Presented below is a reconciliation of GAAP and non-GAAP.

	Thirteen weeks ended		Thirty-nine weeks ended	
($ in millions, except per share amounts)	**October 29, 2022**	**October 30, 2021**	**October 29, 2022**	**October 30, 2021**
Pre-tax income:				
Income before income taxes	**$ 143**	$ 222	**$ 476**	$ 1,093
Pre-tax amounts excluded from GAAP:				
Impairment and other charges	**20**	57	**38**	97
Other income / expense, net	**14**	(27)	**32**	(347)
Adjusted income before income taxes (non-GAAP)	**$ 177**	$ 252	**$ 546**	$ 843
After-tax income:				
Net income attributable to Foot Locker, Inc.	**$ 96**	$ 158	**$ 323**	790
After-tax adjustments excluded from GAAP:				
Impairment and other charges, net of income tax benefit of $5, $14, $10, and $24 million, respectively	**15**	43	**28**	73
Other income / expense, net of income tax benefit/(expense) of $4, ($7), $7, and $(91) million, respectively	**10**	(20)	**25**	(256)
Tax reserves charge	**—**	—	**5**	—
Adjusted net income (non-GAAP)	**$ 121**	$ 181	**$ 381**	607
Earnings per share:				
Diluted earnings per share	**$ 1.01**	$ 1.52	**$ 3.38**	7.54
Diluted EPS amounts excluded from GAAP:				
Impairment and other charges	**0.16**	0.41	**0.29**	0.69
Other income / expense, net	**0.10**	(0.19)	**0.26**	(2.43)
Tax reserves charge	**—**	—	**0.05**	—
Adjusted diluted earnings per share (non-GAAP)	**$ 1.27**	$ 1.74	**$ 3.98**	5.80

During the thirteen and thirty-nine weeks ended October 29, 2022, we recorded pre-tax charges of $20 million and $38 million, respectively, classified as Impairment and Other. See the *Impairment and Other Charges* section for further information.

The adjustments made to other income / (expense), net reflect gains or losses primarily associated with our minority investments. See the *Other Income / (Expense), net* section for further information.

In the second quarter of 2022, we recorded a $5 million charge related to our income tax reserves due to the resolution of a foreign tax settlement.

Segment Reporting

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

Results of Operations

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

The table below summarizes our results.

	Thirteen weeks ended		Thirty-nine weeks ended	
($ in millions)	**October 29, 2022**	**October 30, 2021**	**October 29, 2022**	**October 30, 2021**
Sales	**$ 2,173**	$ 2,189	**$ 6,413**	$ 6,617
Operating Results				
Division profit	**216**	283	**660**	930
Less: Impairment and other charges (1)	**20**	57	**38**	97
Less: Corporate expense (2)	**39**	30	**109**	91
Income from operations	**157**	196	**513**	742
Interest expense, net	**(3)**	(4)	**(13)**	(8)
Other income / (expense), net (3)	**(11)**	30	**(24)**	359
Income before income taxes	**$ 143**	$ 222	**$ 476**	$ 1,093

(1) See the *Impairment and Other Charges* section for further information.
(2) Corporate expense consists of unallocated selling, general and administrative expenses as well as depreciation and amortization related to the Company's corporate headquarters, centrally managed departments, unallocated insurance and benefit programs, certain foreign exchange transaction gains and losses, and other items.
(3) Other income / (expense), net includes non-operating items, franchise royalty income, changes in fair value of minority interests measured at fair value or using the fair value measurement alternative, changes in the market value of our available-for-sale security, our share of earnings or losses related to our equity method investments, and net benefit expense related to our pension and postretirement programs excluding the service cost component. See the *Other income / (expense), net* section for further information.

Sales

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

Sales from acquired businesses that include inventory are included in the computation of comparable-store sales after 15 months of operations. Accordingly, sales of WSS and atmos have been excluded from the computation of comparable-store sales. As a result of the Eastbay Team Sales divestiture, sales from this business were removed for the computation of comparable sales for all periods.

For the thirteen weeks ended October 29, 2022, total sales decreased by $16 million, or 0.7%, to $2,173 million, as compared with the corresponding prior-year period. For the thirty-nine weeks ended October 29, 2022, total sales decreased by $204 million, or 3.1%, to $6,413 million, as compared with the corresponding prior-year period. Excluding the effect of foreign currency fluctuations, total sales increased by $72 million, or 3.3%, for the thirteen weeks ended October 29, 2022, and decreased by $4 million, or 0.1%, for the thirty-nine weeks ended October 29, 2022. Comparable sales increased by 0.8% and decreased by 3.9% for the thirteen and thirty-nine weeks ended October 29, 2022, respectively. The information shown below represents certain sales metrics by sales channel.

	Thirteen weeks ended		Thirty-nine weeks ended	
($ in millions)	October 29, 2022	October 30, 2021	October 29, 2022	October 30, 2021
Stores				
Sales	**$ 1,818**	$ 1,756	**$ 5,310**	$ 5,193
$ Change	**$ 62**		**$ 117**	
% Change	**3.5 %**		**2.3 %**	
% of total sales	**83.7 %**	80.2 %	**82.8 %**	78.5 %
Comparable sales increase	**4.7 %**	4.2 %	**1.9 %**	32.7 %
Direct-to-customers				
Sales	**$ 355**	$ 433	**$ 1,103**	$ 1,424
$ Change	**$ (78)**		**$ (321)**	
% Change	**(18.0)%**		**(22.5)%**	
% of total sales	**16.3 %**	19.8 %	**17.2 %**	21.5 %
Comparable sales decrease	**(14.5)%**	(4.6)%	**(24.2)%**	(7.1)%

Sales from our acquired WSS and atmos banners were $162 million and $40 million, respectively, for the thirteen weeks ended October 29, 2022, and $437 million and $137 million, respectively for the thirty-nine weeks ended October 29, 2022. WSS, which was acquired during the third quarter of 2021, generated sales for partial quarter of 2021 of $56 million. The information shown below represents certain combined stores and direct-to-customers sales metrics, excluding the sales from WSS (current and prior-year periods) and atmos.

	Thirteen weeks		Thirty-nine weeks	
	Constant Currencies	Comparable Sales	Constant Currencies	Comparable Sales
North America	(7.7)%	(1.1)%	(15.6)%	(9.9)%
EMEA	3.5 %	0.8 %	17.6 %	14.7 %
Asia Pacific	42.2 %	36.5 %	25.5 %	20.9 %
	(3.5)%	0.8 %	(8.0)%	(3.9)%

Despite the decline in sales as compared with our record levels in 2021, sales exceeded the results of 2019. Excluding the effect of foreign exchange rate fluctuations and our acquisitions, sales increased by 4.5% and by 2.2% for the quarter and year-to-date periods, respectively, as compared with the corresponding periods of 2019.

Comparable sales increased in our stores, however sales decreased in our direct-to-customer channel for the quarter and year-to-date periods of 2022. Our sales in stores increased, driven by strong demand, brand diversification efforts, and improved access to high-quality inventory. Our direct-to-customer channel continued to decrease as shoppers navigated back to physical locations.

Our North American operating segment's sales, excluding WSS, and comparable-store sales for the current year were negatively affected by the significant fiscal stimulus, which contributed to last year's growth, as well as the effects of inflation on customer demand. Additionally, the wind down of the Footaction business negatively affected sales, last year we operated 161 stores as compared with 11 this quarter. Within EMEA, sales from the Foot Locker banner increased as tourism returned to more historical levels driving traffic back to our stores. The overall positive comparable sales for EMEA was partly offset by continued decline in sales from the Sidestep banner, which generated a negative decline in comparable sales for the quarter. Asia Pacific, excluding atmos, generated increases from both strong performance in Australia and New Zealand compared to last year's COVID-19 related store closures, coupled with growth in Asia, based on expansion in that region. Asia Pacific's increases were affected by the increase in operating days, the current year was essentially open for all days as compared with approximately 56% and 75% for the quarter and year-to-date periods last year, respectively.

From a product perspective, for the combined channels for the quarter, increased sales from footwear product was offset by a decline in apparel sales, while sales of accessories were essentially flat. For the year-to-date period, the decline in sales was primarily from lower footwear and apparel sales, offset, in part, by higher sales of accessories. The decline in footwear for the third quarter was primarily due to lower sales from men's and kids' running footwear products, and the decline in sales of apparel represented lower sales of men's and performance apparel products. For the year-to-date period, men's, kids', and performance footwear decreased, offset by a small increase in sales of women's footwear. Apparel sales decreased in the men's, kids', and performance categories, while sales of women's product increased.

Gross Margin

	Thirteen weeks ended		**Thirty-nine weeks ended**	
	October 29, 2022	**October 30, 2021**	**October 29, 2022**	**October 30, 2021**
Gross margin rate	**32.0 %**	34.7 %	**32.6 %**	34.9 %
Basis point decrease in the gross margin rate	**(270)**		**(230)**	
Components of the change:				
Merchandise margin rate decline	**(280)**		**(210)**	
Occupancy and buyers' compensation expense rate	**10**		**(20)**	

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

The gross margin rate decreased to 32.0% for the thirteen weeks ended October 29, 2022, as compared with the corresponding prior-year period, reflecting a 280-basis point decrease in the merchandise margin rate, and a 10-basis point leverage in the occupancy and buyers' compensation rate. For the thirty-nine weeks ended October 29, 2022, the gross margin rate declined by 230 basis points, reflecting a 210-basis point decrease in the merchandise margin rate and a 20-basis point deleverage in the occupancy and buyers' compensation rate.

The declines in merchandise margin rate reflected higher markdowns versus historically-low levels last year and higher supply chain costs. Additionally, merchandise margin is negatively affected by the recent acquisitions that generate a lower rate, which is offset by lower occupancy costs and therefore does not significantly affect the overall gross margin rate. The occupancy rate also reflected the effect of prior year rent abatements related to COVID-19 that represented $3 million and $14 million for the thirteen and thirty-nine weeks of last year, respectively, as compared with insignificant amounts this year.

Selling, General and Administrative Expenses (SG&A)

	Thirteen weeks ended		Thirty-nine weeks ended	
($ in millions)	**October 29, 2022**	**October 30, 2021**	**October 29, 2022**	**October 30, 2021**
SG&A	**$ 467**	$ 458	**$ 1,382**	$ 1,326
$ Change	**$ 9**		**$ 56**	
% Change	**2.0 %**		**4.2 %**	
SG&A as a percentage of sales	**21.5 %**	20.9 %	**21.5 %**	20.0 %

SG&A increased by $9 million, or $32 million excluding the effect of foreign currency fluctuations, for the thirteen weeks ended October 29, 2022, as compared with the corresponding prior-year period. For the year-to-date period SG&A increased by $56 million, or $109 million excluding the effect of foreign currency fluctuations. Our newly acquired businesses contributed $44 million and $116 million for the quarter and year-to-date periods, respectively, to the overall increase. As a percentage of sales, SG&A increased by 60 basis points and 150 basis points for the thirteen and thirty-nine weeks ended October 29, 2022, respectively, driven by higher labor costs, information technology and support expenses, and COVID-19 related matters in the prior year, partially offset by early savings from our cost optimization program.

SG&A for the thirteen and thirty-nine weeks ended October 29, 2022 included nominal payroll subsidies from local governments, compared with $1 million and $15 million for the corresponding prior-year periods, respectively.

Depreciation and Amortization

	Thirteen weeks ended		Thirty-nine weeks ended	
($ in millions)	**October 29, 2022**	**October 30, 2021**	**October 29, 2022**	**October 30, 2021**
Depreciation and amortization	**$ 52**	$ 49	**$ 157**	$ 142
$ Change	**$ 3**		**$ 15**	
% Change	**6.1 %**		**10.6 %**	

Depreciation and amortization expense increased by $3 million and $15 million for the thirteen weeks and thirty-nine weeks ended October 29, 2022, respectively, as compared with the corresponding prior-year periods. Excluding the effect of foreign currency fluctuations, depreciation and amortization increased by $5 million and $20 million for the thirteen weeks and thirty-nine weeks ended October 29, 2022, respectively, as compared with the corresponding prior-year periods. The increase was primarily related to the acquisitions of WSS and atmos.

Impairment and Other Charges

Transformation consulting charges were $17 million and $27 million for the thirteen and thirty-nine weeks ended October 29, 2022, respectively. Impairment of long-lived assets and right-of-use assets was not significant and $5 million for the thirteen and thirty-nine weeks ended October 29, 2022, respectively, compared to $13 million and $52 million for the thirteen and thirty-nine weeks ended October 30, 2021, respectively. Acquisition and integration costs related to WSS and atmos were $1 million and $4 million for the thirteen and thirty-nine weeks ended October 29, 2022, respectively, compared with $14 million during each of the prior year periods.

We recorded reorganization costs, primarily severance, of $2 million for both the thirteen and thirty-nine weeks ended October 29, 2022.

For the thirteen and thirty-nine weeks ended October 30, 2021, impairment of investments was $30 million and $32 million for the thirteen and thirty-nine weeks ended October 30, 2021, respectively, due to continued losses and updated estimates of value for the Company's minority investments. We recorded charges of $4 million in lease-related termination costs, and a severance charge of $2 million in connection with the reorganization of certain support functions, offset by $7 million of insurance recovery income related to 2020 social unrest losses for the thirty-nine weeks ended October 30, 2021.

Corporate Expense

	Thirteen weeks ended		Thirty-nine weeks ended	
($ in millions)	**October 29, 2022**	**October 30, 2021**	**October 29, 2022**	**October 30, 2021**
Corporate expense	**$ 39**	$ 30	**$ 109**	$ 91
$ Change	**$ 9**		**$ 18**	

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

Corporate expense increased by $9 million and $18 million for the thirteen and thirty-nine weeks ended October 29, 2022, respectively, as compared with the corresponding prior-year periods. Depreciation and amortization included in corporate expense was $10 million and $9 million for the thirteen weeks ended October 29, 2022 and October 30, 2021, respectively, and $29 million and $25 million for the thirty-nine weeks ended October 29, 2022 and October 30, 2021, respectively. Excluding the changes in depreciation and amortization, corporate expense increased primarily due to higher information technology and support expenses.

Operating Results

	Thirteen weeks ended		Thirty-nine weeks ended	
($ in millions)	**October 29, 2022**	**October 30, 2021**	**October 29, 2022**	**October 30, 2021**
Division profit	**$ 216**	$ 283	**$ 660**	$ 930
Division profit margin	**9.9 %**	12.9 %	**10.3 %**	14.1 %

Division profit margin as a percentage of sales decreased to 9.9% and 10.3% of sales for the thirteen weeks and thirty-nine weeks ended October 29, 2022, respectively, with both sales channels experiencing declines in gross margin and deleveraging expenses. WSS and atmos generated division profit of $8 million and $4 million, respectively for the third quarter, and $28 million and $21 million for the year-to-date period. WSS' division results for the prior year period was not significant as the acquisition occurred during the quarter.

Our Sidestep business has been underperforming and management is currently reviewing strategic actions to assess this operation. Management will monitor the results of this business during the fourth quarter and will assess, if necessary, the effect of various initiatives on the projected performance of this division, which may include an impairment review.

Interest Expense, Net

	Thirteen weeks ended		Thirty-nine weeks ended	
($ in millions)	**October 29, 2022**	**October 30, 2021**	**October 29, 2022**	**October 30, 2021**
Interest expense	**$ (6)**	$ (4)	**$ (18)**	$ (10)
Interest income	**3**	—	**5**	2
Interest (expense) income, net	**$ (3)**	$ (4)	**$ (13)**	$ (8)

We recorded $3 million and $13 million of net interest expense for the thirteen and thirty-nine weeks ended October 29, 2022, respectively as compared with net interest expense of $4 million and $8 million for the corresponding prior-year periods. Interest expense increased primarily due to the issuance of the 4% Notes, partially offset by higher interest income from our cross-currency swap and higher interest rates earned on our cash and cash equivalents.

Other Income / (Expense), Net

	Thirteen weeks ended		Thirty-nine weeks ended	
($ in millions)	**October 29, 2022**	**October 30, 2021**	**October 29, 2022**	**October 30, 2021**
Other income / (expense), net	**$ (11)**	$ 30	**$ (24)**	$ **359**

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

The thirteen weeks ended October 29, 2022 reflected a gain of $1 million from the divestiture of Eastbay Team Sales, and a $15 million loss on minority investments, primarily the decline in the fair value of our Retailors, Ltd. investment. The thirty-nine weeks ended October 29, 2022 reflected the gain from the divestiture of $19 million, a decline in our Retailors, Ltd. investment of $52 million, partially offset by $1 million of dividend income.

Other income / (expense), net also includes $3 million and $9 million of franchise income for the thirteen and thirty-nine weeks ended October 29, 2022, respectively. The year-to-date period also includes a charge of $1 million primarily related to our auction rate security.

Other income for the thirteen weeks ended October 30, 2021 primarily consisted of the $26 million increase in the fair value of our Retailors, Ltd. investment and other minority investment income of $1 million. The amount for the thirty-nine weeks ended October 30, 2021 includes a $290 million increase in the fair value of our minority investment in GOAT, $50 million of income related to Retailors, Ltd., $4 million related to our insurance recovery from the 2020 social unrest, and other minority investment income of $3 million.

Activity related to our minority investments and the insurance recovery were all considered our non-GAAP adjustments in all of the periods presented.

Income Taxes

($ in millions)	Thirteen weeks ended October 29, 2022	Thirteen weeks ended October 30, 2021	Thirty-nine weeks ended October 29, 2022	Thirty-nine weeks ended October 30, 2021
Provision for income taxes	**$ 47**	$ 64	**$ 154**	$ 303
Effective tax rate	**33.0 %**	28.8 %	**32.4 %**	27.7 %

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

We regularly assess the adequacy of our provisions for income tax contingencies in accordance with applicable authoritative guidance on accounting for income taxes. As a result, we may adjust the reserves for unrecognized tax benefits considering new facts and developments, such as changes to interpretations of relevant tax law, assessments from taxing authorities, settlements with taxing authorities, and lapses of statutes of limitation.

In the second quarter of 2022, we recorded a $5 million charge related to our income tax reserves due to the resolution of a foreign tax settlement. Partially offsetting this charge were tax benefits totaling $2 million from reserves releases due to various statute of limitation lapses. The changes in tax reserves were not significant for any of the prior-year periods.

We also recorded a tax expense of $6 million in connection with Eastbay Team Sales divestiture, including the effect of a non-deductible goodwill write-off, that occurred in the second quarter.

During the thirty-nine weeks ended October 29, 2022, we recorded $1 million of expense related to tax deficiencies from share-based compensation, as compared with an excess tax benefit of $2 million recorded in the corresponding prior-year period.

Excluding the above-mentioned discrete items, the effective tax rates for the current year periods increased, as compared with the corresponding prior-year periods, primarily due to the change in the level and mix of domestic and foreign earnings.

Our effective tax rate will vary due to numerous factors, such as level and geographic mix of income and losses, acquisitions, investments, intercompany transactions, foreign currency exchange rates, our stock price, changes in our deferred tax assets and liabilities and their valuation, changes in the laws, regulations, administrative practices, principles, and interpretations related to tax, including changes to the global tax framework and other laws and accounting rules in various jurisdictions.

On August 16, 2022, President Biden signed the Inflation Reduction Act (“IRA”) of 2022 into law. The IRA contains a number of revisions to the Internal Revenue Code, including a 15% corporate minimum tax and a 1% excise tax on corporate stock repurchases in tax years beginning after December 31, 2022. We do not currently expect the IRA tax provisions will have a significant effect on our overall effective tax rate.

Liquidity and Capital Resources

Liquidity

Our primary source of liquidity has been cash flow from operations, while the principal uses of cash have been to fund inventory and other working capital requirements; finance capital expenditures related to store openings, store remodelings, internet and mobile sites, information systems, and other support facilities; make retirement plan contributions, quarterly dividend payments, and interest payments; and fund other cash requirements to support the development of our short-term and long-term operating strategies, including strategic investments.

We generally finance real estate with operating leases. We believe our cash, cash equivalents, future cash flow from operations, and amounts available under our credit agreement will be adequate to fund these requirements.

The Company may also repurchase its common stock or seek to retire or purchase outstanding debt through open market purchases, privately negotiated transactions, or otherwise. Share repurchases and retirement of debt, if any, will depend on prevailing market conditions, liquidity requirements, contractual restrictions, strategic considerations, and other factors. The amounts involved may be material. As of October 29, 2022, approximately $1,103 million remained available under our current $1.2 billion share repurchase program, which was approved in February 2022. The new program does not have an expiration date.

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

Operating Activities

	Thirty-nine weeks ended	
($ in millions)	**October 29, 2022**	**October 30, 2021**
Net cash (used in) provided by operating activities	**$ (32)**	$ 498
$ Change	**$ (530)**	

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

The decrease in cash from operating activities reflected higher merchandise purchases and payments of accounts payable and accrued and other liabilities, as well as lower net income, as compared with the same period last year. Higher merchandise purchases were necessary as our year-end inventory levels were affected by the COVID-19 pandemic and the associated supply chain challenges.

As of October 29, 2022, we have withheld approximately $5 million of lease and lease-related payments as we continue to negotiate rent deferrals or abatements with our landlords for the period that our stores were closed due to the COVID-19 pandemic.

Investing Activities

	Thirty-nine weeks ended	
($ in millions)	**October 29, 2022**	**October 30, 2021**
Net cash used in investing activities	**$ (182)**	$ (983)
$ Change	**$ 801**	

The change in investing activities primarily reflected the WSS acquisition in the prior year and higher capital expenditures in the current year, partially offset by divestiture of certain assets. During the third quarter of 2021, we completed the acquisition of WSS for $737 million, net of cash acquired. During the thirty-nine weeks ended October 29, 2022, we paid an additional $18 million for the WSS and atmos acquisitions upon the satisfaction of certain post-closing conditions.

For the thirty-nine weeks ended October 29, 2022, capital expenditures increased by $81 million to $218 million, as compared with the corresponding prior-year period. Our full-year capital spending is expected to be $265 million. The forecast includes $182 million related to the remodeling or relocation of approximately 140 existing stores and the opening of approximately 110 new stores, as well as $83 million for the development of information systems, websites, and infrastructure, including supply chain initiatives.

We have invested $5 million in minority investments during the current year, including various limited partner venture capital funds managed by Black fund managers, who are committed to advancing diverse-led businesses as part of our Leading in Education and Economic Development (LEED) initiative. During the second quarter of 2022, we sold our position in one of our minority investments receiving proceeds of $12 million. In the prior-year period, we invested $115 million which was comprised of an additional $33 million investment in GOAT, a $68 million investment in a public entity (Retailors, Ltd.), and a $14 million investment in various companies, primarily related to LEED.

Also during the second quarter of 2022, we sold our Eastbay Team Sales business receiving proceeds of $47 million.

We sold the former Runners Point headquarters in the first quarter of 2021, generating proceeds of $3 million. Also last year, we received insurance proceeds of $3 million related to property and equipment claims from the social unrest losses in 2020.

Financing Activities

	Thirty-nine weeks ended	
($ in millions)	**October 29, 2022**	**October 30, 2021**
Net cash (used in) / provided by financing activities	**$ (237)**	$ 154
$ Change	**$ (391)**	

Cash used in financing activities was driven by our return to shareholders initiatives, including our share repurchase program and cash dividends, as follows:

	Thirty-nine weeks ended	
($ in millions)	**October 29, 2022**	**October 30, 2021**
Share repurchases	**$ 129**	$ 170
Dividends paid on common stock	**113**	72
Total returned to shareholders	**$ 242**	$ 242

During the thirty-nine weeks ended October 29, 2022, we repurchased 4,050,000 shares of common stock for $129 million under our share repurchase programs, whereas in the prior year we spent $170 million to repurchase shares. We also declared and paid $113 million in dividends representing a quarterly rate of $0.40 per share in 2022, as compared with $72 million in dividends representing quarterly rates of $0.20 per share for the first two quarters of 2021 and $0.30 per share for the third quarter.

We paid $1 million to satisfy tax withholding obligations relating to the vesting of share-based equity awards during the thirty-nine weeks ended October 29, 2022, as compared with $11 million in 2021. Offsetting this amount were proceeds received in connection with employee stock programs of $7 million in the current year, as compared with $17 million in the prior-year period. Additionally, we paid $5 million of principal on our finance lease obligations, mainly related to certain WSS stores.

Cash provided by financing activities in the prior-year period consisted primarily of the issuance of the 4% Notes due 2029, for which we received $395 million in proceeds, net of the initial purchasers' discount.

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 2021 Form 10-K.

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.

During the quarter ended October 29, 2022, there were no changes, other than process changes that may be necessary related to the newly acquired businesses, in the Company’s internal control over financial reporting (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 2021 Annual Report on Form 10-K filed with the SEC on March 24, 2022 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 2021 Form 10-K.

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

The table below provides information with respect to shares of the Company's common stock for the thirteen weeks ended October 29, 2022.

Date Purchased	**Total Number of Shares Purchased** (1)	**Average Price Paid Per Share** (1)	**Total Number of Shares Purchased as Part of Publicly Announced Program** (2)	**Dollar Value of Shares that may yet be Purchased Under the Program** (2)
July 31 to August 27, 2022	—	$ —	—	$ 1,103,814,042
August 28 to October 1, 2022	786	34.46	—	1,103,814,042
October 2 to October 29, 2022	—	—	—	1,103,814,042
	786	$ 34.46	—	

(1) These columns include 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 24, 2022, the Board of Directors approved a new $1.2 billion share repurchase program. The new program does not have an expiration date.

Item 6. Exhibits

Exhibit No.	Description
15*	Accountants' Acknowledgement.
31.1*	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32**	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99*	Report of Independent Registered Public Accounting Firm.
101.INS*	Inline XBRL Instance Document.
101.SCH*	Inline XBRL Taxonomy Extension Schema.
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase.
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase.
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase.
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase.
104*	Cover Page Interactive Data File (embedded within the Inline XBRL datafile).

* Filed herewith
** Furnished herewith

SIGNATURE

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

Date: December 7, 2022	FOOT LOCKER, INC.
	/s/ Andrew E. Page
	ANDREW E. PAGE Executive Vice President and Chief Financial Officer

Exhibit 15

ACCOUNTANT'S ACKNOWLEDGEMENT

The Board of Directors of
Foot Locker, Inc.:

We acknowledge our awareness of the use therein of our report dated December 7, 2022 related to our review of interim financial information in the following Registration Statements:

- Form S-8 No. 333-33120
- Form S-8 No. 333-121515
- Form S-8 No. 333-144044
- Form S-8 No. 333-149803
- Form S-8 No. 333-167066
- Form S-8 No. 333-171523
- Form S-8 No. 333-190680
- Form S-8 No. 333-196899
- Form S-8 No. 333-267044

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

/s/ KPMG LLP

New York, New York
December 7, 2022

Exhibit 31.1

CERTIFICATION

I, Mary N. Dillon, 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.

December 7, 2022

/s/ Mary N. Dillon
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Andrew E. Page, certify that:

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

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

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

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

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

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

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

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

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

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

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

December 7, 2022

/s/ Andrew E. Page
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 October 29, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Mary N. Dillon, as Chief Executive Officer of the Registrant and Andrew E. Page, as Chief Financial Officer of the Registrant, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Dated: December 7, 2022

/s/ Mary N. Dillon
Mary N. Dillon
Chief Executive Officer

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

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

Report of Independent Registered Public Accounting Firm

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

Results of Review of Interim Financial Information

We have reviewed the condensed consolidated balance sheets of Foot Locker, Inc. and subsidiaries (the Company) as of October 29, 2022 and October 30, 2021, the related condensed consolidated statements of operations, comprehensive income, and changes in shareholders’ equity for the thirteen and thirty-nine week periods ended October 29, 2022 and October 30, 2021, the related condensed consolidated statements of cash flows for the thirty-nine week periods ended October 29, 2022 and October 30, 2021, and the related notes (collectively, the consolidated interim financial information). Based on our reviews, we are not aware of any material modifications that should be made to the consolidated interim financial information for it to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheet of the Company as of January 29, 2022, and the related consolidated statements of operations, comprehensive income, changes in shareholders’ equity, and cash flows for the year then ended (not presented herein); and in our report dated March 24, 2022, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of January 29, 2022, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Basis for Review Results

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

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

/s/ KPMG LLP

New York, New York
December 7, 2022