

FINISH LINE INC /IN/  
Form 10-K  
April 29, 2013  
[Table of Contents](#)

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

**FORM 10-K**

(Mark One)

☒ **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the fiscal year ended March 2, 2013

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 0-20184

**THE FINISH LINE, INC.**

(Exact name of registrant as specified in its charter)

Edgar Filing: FINISH LINE INC /IN/ - Form 10-K

**Indiana**  
(State of Incorporation)

**35-1537210**  
(I.R.S. Employer ID No.)

**3308 N. Mitthoeffer Road, Indianapolis, Indiana 46235**

**Registrant's telephone number, including area code: (317) 899-1022**

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

(Title of Each Class)	(Name of each exchange on which registered)
Class A Common Stock, \$.01 par value	The NASDAQ Stock Market LLC

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

**None**

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

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

Indicate by check mark whether 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 registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Securities Exchange Act of 1934.

Large accelerated filer ☒ Accelerated filer ☐

Non-accelerated filer ☐ Smaller reporting company ☐

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant, which was based on the closing price the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$1,156,262,000.

The number of shares of the Registrant's Class A Common Stock outstanding on April 5, 2013 was 49,242,933.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's Proxy Statement (to be filed within 120 days after March 2, 2013) for the Annual Meeting of Shareholders to be held on July 18, 2013 (hereinafter referred to as the 2013 Proxy Statement ) are incorporated into Part III.

## **Table of Contents**

### **PART I**

#### **Item 1 Business**

##### ***General***

Throughout this Annual Report on Form 10-K, the 52 weeks ended March 2, 2013, the 53 weeks ended March 3, 2012 and the 52 weeks ended February 26, 2011 are referred to as fiscal 2013, 2012 and 2011, respectively.

The Finish Line, Inc., together with its subsidiaries (collectively, the Company), is one of the nation's largest mall-based specialty retailers in the United States, and operates two retail divisions under the Finish Line brand name (Finish Line) and Running Specialty Group (Running Specialty).

**Finish Line.** Finish Line is a premium retailer of athletic shoes, apparel and accessories. As of April 5, 2013, the Company operated 651 Finish Line stores, averaging approximately 5,400 square feet, in 47 states. In addition, the Company operates an e-commerce site, www.finishline.com, as well as mobile commerce via m.finishline.com. Finish Line stores generally carry a large selection of men's, women's and kids' performance and athletic casual shoes, as well as an assortment of apparel and accessories. Brand names offered by Finish Line include Nike, Brand Jordan, Reebok, adidas, Under Armour, Asics, Brooks, New Balance, Mizuno, The North Face and many others. Footwear accounts for approximately 86% of Finish Line's net sales. Finish Line's goal is to continue to be a premium athletic footwear retailer, which is defined by offering the most relevant products from the best brands in an engaging and exciting shopping environment with knowledgeable staff trained to deliver outstanding customer service.

Finish Line announced an agreement in September 2012 with Macy's to become the exclusive provider of athletic shoes, both in-store and online. Finish Line will manage the athletic footwear assortment and inventory for all Macy's locations and online. This will include Finish Line-branded athletic footwear shops in more than 450 Macy's department stores (Branded shops within department stores) in the U.S. The rollout process for the 450 Branded shops within department stores started in February 2013 with completion expected in 18-24 months. As of April 5, 2013, the Company operated 8 Branded shops within department stores. Finish Line began managing the athletic footwear assortment and inventory for all Macy's locations on April 14, 2013. The assortment will be available online in late spring of 2013.

**Running Specialty.** Running Specialty is a specialty running retailer of precision-fitted running shoes, apparel and accessories. As of April 5, 2013, the Company operated 27 Running Specialty stores in eight states and the District of Columbia. In addition, Running Specialty launched its e-commerce, www.run.com, in August 2012. Running Specialty stores generally carry men's and women's performance running shoes, as well as an assortment of performance apparel and accessories. Brand names offered include Nike, Mizuno, Saucony, Asics, Brooks, New Balance, adidas, ON and Newton. Footwear accounts for approximately 50% of Running Specialty's net sales. Running Specialty stores, which average 3,000 square feet, were first acquired by the Company on August 31, 2011 as an 18-store chain.

The Company's principal executive offices are located at 3308 N. Mitthoeffer Road, Indianapolis, Indiana 46235, and its telephone number is (317) 899-1022.

##### ***Operating Strategies***

The Company seeks to be the premium athletic footwear retailer and specialty running retailer in the markets it serves. To achieve this, the Company has developed the following elements to its operating strategy:

**Emphasis on Customer Service and Convenience.** The Company is committed to providing a premium shopping experience that is relevant and rewarding for customers.

Finish Line seeks to achieve this objective in stores by providing convenient mall-based locations that feature a compelling store design. In certain stores, this includes store-within-a-store models that feature Nike Track Club and a differentiated customer experience with knowledgeable, trained, and courteous customer service professionals as well as a vast selection of fashion-forward and innovative products.

Running Specialty stores carry a deep assortment of performance running shoes, apparel and accessories. Running Specialty stores have trained experts to advise everyone from beginner to advanced runners and provide free gait analysis to ensure the proper fit. The stores are tightly connected to their communities, hosting regular neighborhood group runs and sponsoring local races, which typically begin and end near the store.



## **Table of Contents**

Through e-commerce and mobile commerce ( digital ), Finish Line and Running Specialty seek to provide an easy shopping experience, robust product selection and outstanding service.

**Product Diversity; Target Customer Appeal.** The Company stocks its stores with a combination of the leading and newest brand name merchandise, including in-line offerings and unique products manufactured exclusively for the Company. The focus is on the Company's stores maintaining its status as a leader in the running category; however, several product categories are represented. Product diversity, in combination with the Company's store formats and commitment to customer service, is intended to attract a core customer (typically male, age 18-29 for the Finish Line brand and technical and performance runners for the Running Specialty stores) as well as other key demographics. The Company is focused on premium product, meaning the best brands, trend-right styles and most relevant selection, and not necessarily dictated by price.

## ***Merchandise***

The following table sets forth net sales along with the percentage of net sales for the Company attributable to the categories of footwear and softgoods during the years indicated. These amounts and percentages fluctuate substantially during the different consumer buying seasons. To take advantage of this seasonality, the Company's stores have been designed to allow for a shift in emphasis in the merchandise mix between footwear and softgoods items.

Category	2013		2012		2011	
			(in thousands)			
Footwear	\$ 1,237,685	86%	\$ 1,177,114	86%	\$ 1,056,586	86%
Softgoods	205,680	14%	192,145	14%	172,416	14%
Total	\$ 1,443,365	100%	\$ 1,369,259	100%	\$ 1,229,002	100%

All merchandising decisions, including merchandise mix, pricing, promotions and markdowns, are made at the Company's corporate headquarters. The store sales manager and district sales manager, along with management at the Company's headquarters, review the merchandise mix to adapt to trends in the marketplace.

## ***Technology***

The Company continues to redesign and update its e-commerce sites to enhance the quality and functionality of the sites. The Company has committed capital and other resources specifically for its growing e-commerce channel, which includes design and content upgrades, mobile and tablet applications, expanded presence on social media, and platform enhancements. Finishline.com, run.com and related mobile sites are collectively the Company's most visited store with approximately 320,000 visitors per day.

To support the omni-channel commitment as a customer-centric organization, the Company also continuously evaluates and implements improvements to technological platforms. This includes merchandising, planning, allocation, warehouse management, order management and customer relationship management. With these updates, the Company engages the customer, remains flexible and scalable to support growth, provides integrated service and has information for real-time decision making.

Within our Finish Line stores we have fully upgraded our POS software and hardware during fiscal 2013 including the addition of hand-held scanners allowing our customer service specialists to check customers out anywhere in the store via credit or debit card.

The Company is focused on creating an omni-channel customer experience which will deliver a consistent, seamless brand experience for customers at all touch points – brick and mortar stores, web, mobile, social media, phone, email and direct mail.

## **Table of Contents**

### ***Marketing***

The Company attempts to reach its target audience by using a multifaceted approach to marketing on national, regional and local levels. The Company utilizes its store windows, direct mail, e-mail, viral media, outdoor, search engine optimization, key word searches and online ads in its marketing efforts. Running Specialty also markets through participating in expositions throughout the year at different running events, as well as through local race events.

The Company takes advantage of advertising and promotional assistance from many of its suppliers. This assistance takes the form of cooperative advertising programs, in-store sales incentives, point-of-purchase materials, product training for employees and other programs. Total advertising expense was 2.1% of net sales after deducting co-op reimbursements in fiscal 2013 compared to 2.0% in fiscal 2012. These percentages fluctuate substantially during the different consumer buying seasons. The Company believes that it benefits from the multi-million dollar advertising campaigns of its key suppliers, such as Nike, adidas, Reebok and Under Armour.

The Company has a customer loyalty program called *Winners Circle*. Customers earn a \$20 reward certificate for every \$200 they spend with Finish Line within a 12 month period, in addition to receiving special member offers on footwear and apparel. The Company maintains a *Winners Circle* database with information that it uses to communicate with members regarding key initiatives, product offerings and promotions. The Company continues to put an emphasis on growing the membership base of the *Winners Circle* program, which increased 23% in fiscal 2013, and improving the marketing effectiveness of the *Winners Circle* program to drive sales.

### ***Purchasing and Distribution***

In addition to merchandise procurement for both footwear and softgoods, the buying department for the Company is also responsible for determining initial pricing and working with the planning and allocation department to establish appropriate stock levels and product mix. The buying department is also responsible for communicating with store operations to monitor shifts in customer tastes and market trends.

The planning and allocation department is responsible for merchandise allocation, inventory movements and the automated replenishment system. The department acts as the central processing intermediary between the buying department and stores and also tracks the effectiveness of each marketing effort to allow the buying and marketing departments to determine the relative success of each promotional program. In addition, this department also manages the implementation of price changes, creation of vendor purchase orders and determination of inventory levels for each store.

The Company believes that its ability to buy in large quantities directly from suppliers enables it to obtain favorable pricing and trade terms. Currently, the Company purchases product from approximately 120 suppliers and manufacturers of athletic and fashion products, the largest of which (Nike) accounted for approximately 69% and 64% of total purchases in fiscal 2013 and 2012, respectively. The Company purchased approximately 88% and 84% of total merchandise in fiscal 2013 and 2012, respectively, from its five largest suppliers. The Company and its vendors use EDI technology to streamline purchasing and distribution operations.

Nearly all of the Company's merchandise is shipped directly from suppliers to the distribution center, where the Company processes and ships it by contract and common carriers to its stores. Each day shipments are made to one-third of the Company's stores. In any three-week period, each store will receive five shipments. A shipment is normally received by the store one to four days from the date that the order is filled depending on the store's distance from the distribution center.

## **Table of Contents**

### ***Store Operations***

The Company's corporate and regional senior management visit the stores regularly to review the implementation of Company plans and policies, monitor operations, and review inventories and the presentation of merchandise. Accounting and general financial functions for the stores are conducted at the corporate headquarters. Each store has a sales manager or co-sales managers that are responsible for supervision and overall operations, one or more assistant sales managers and additional full and part-time sales associates.

Finish Line brand regional, district and store sales managers receive a fixed salary (except store managers in California) and are eligible for bonuses, based primarily on sales, payroll and shrinkage performance goals of the stores for which they are responsible. All store sales managers in California, assistant store sales managers and sales associates are paid on an hourly basis. The Company utilizes a national commission program for its Finish Line stores to motivate employees to provide outstanding customer service and drive sales.

### ***Competition***

The athletic footwear business is highly competitive. Many of the products the Company sells are also sold in department stores, national and regional full-line sporting goods stores, athletic footwear specialty stores, athletic footwear superstores, discount stores, traditional shoe stores, mass merchandisers and e-tailers. Some of the Company's primary competitors are large national chains that have substantially greater financial and other resources than the Company. Among the Company's competition are stores that are owned by major suppliers to the Company. To a lesser extent, the Company competes with local sporting goods and athletic specialty stores. The majority of the Company's stores are located in enclosed malls or shopping centers in which one or more competitors also operate. Typically, the leases that the Company enters into do not restrict the opening of stores by competitors.

The Company attempts to differentiate itself from its competition by operating more attractive, well-stocked stores in high retail traffic areas, with competitive prices and knowledgeable and courteous customer service. The Company attempts to keep its prices competitive with athletic specialty and sporting goods stores in each trade area, including competitors that are not necessarily located inside the mall. The Company believes it accomplishes this by effectively assorting its stores with the most relevant premium brands and products in the market.

### ***Seasonal Business***

The Company's business follows a seasonal pattern, peaking over a total of approximately 12 weeks during the back-to-school (mid July through early September) and holiday (Thanksgiving through Christmas) periods. During fiscal 2013 and 2012, these periods accounted for approximately 32% and 31%, respectively, of the Company's annual sales.

### ***Employees***

As of March 2, 2013, the Company employed approximately 11,900 persons, 3,600 of whom were full-time and 8,300 of whom were part-time. Of this total, approximately 1,000 were employed at the Company's Indianapolis, Indiana corporate headquarters and distribution center and approximately 60 were employed as Regional Vice Presidents and District Sales Managers. Additional part-time employees are typically hired during the back-to-school and holiday seasons. None of the Company's employees is represented by a union, and employee relations are generally considered good.



## **Table of Contents**

### ***Retirement Plan***

The Company's Profit Sharing Plan includes a 401(k) feature. Effective January 1, 2012, the Company amended its Profit Sharing Plan whereby the Company matches 100 percent of employee contributions to the plan on the first three percent of employee's wages and matches an additional 50 percent of employee contributions to the plan up to an additional two percent of their wages. Prior to this amendment, the Company matched 50 percent of employee contributions to the plan up to six percent of employee wages. The Company contributed matching funds of approximately \$1.7 million in fiscal 2013 and \$1.4 million in fiscal 2012.

### ***Intellectual Property***

The Company has registered in the United States and other countries, trademarks, service marks and domain names relating to its business. The Company believes its registrations are valid. It intends to be vigilant with regard to infringing or diluting uses by other parties, and to enforce vigorously its rights in its trademarks, service marks and domain names.

### ***Available Information***

The Company's Internet address is [www.finishline.com](http://www.finishline.com). The Company makes available free of charge through its website the Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after such reports and amendments are electronically filed with or furnished to the Securities and Exchange Commission. In addition, the Company's Code of Ethics and other corporate governance documents are available on its Investor Relations page under Corporate Governance.

## **Item 1A. Risk Factors**

### ***Forward-Looking Statements***

Forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) contained in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as elsewhere in this Annual Report on Form 10-K, involve risks and uncertainties and are subject to change based on various important factors, many of which may be beyond the Company's control. Accordingly, future performance and financial results may differ materially from those expressed or implied in any such forward-looking statements. Investors should not place undue reliance on forward-looking statements as a prediction of actual results. You can identify these statements as those that may predict, forecast, indicate or imply future results, performance or advancements and by forward-looking words such as *believe*, *expect*, *anticipate*, *estimate*, *intend*, *future*, *forecast*, *foresee*, *predict*, *potential*, *plan*, *project*, *goal*, *will*, *will be*, *continue*, *lead to*, *expand*, *grow*, *confidence*, *could*, *should*, *may*, *might* or any variations of such words or other words with similar meanings. Forward-looking statements address or describe, among other things, expectations, growth strategies, including plans to open and close stores, projections of future profitability, results of operations, capital expenditures, financial condition or other forward-looking information and include statements about net sales, product margin, occupancy costs, selling, general and administrative expenses, operating margins, liquidity, operations and inventory. All of these forward-looking statements are subject to risks, management assumptions and uncertainties that could cause actual results to differ materially from those contemplated by the relevant forward-looking statements.

***Current and recent past economic and financial conditions have caused and may continue to cause a decline in consumer spending and may adversely affect the Company's business, operations, liquidity, financial results and stock price.***

The Company's operating results are affected by the relative condition of the U.S. economy. Business and financial performance may be adversely affected by current, recent past, and future economic conditions that cause a decline in business and consumer spending, including a reduction in the availability of credit, increased unemployment levels, higher energy and fuel costs, rising interest rates, financial market volatility and recession. Additionally, the Company may experience difficulties in operating and growing its operations to react to economic pressures in the U.S.

As a business that depends on consumer discretionary spending, the Company's customers may reduce their purchases due to job losses or fear of job losses, foreclosures, bankruptcies, higher consumer debt and interest rates, reduced access to credit, falling home prices, increased taxes and lower consumer confidence. Decreases in comparable store net sales, customer traffic or average dollar per transaction negatively affect the Company's financial performance, and a prolonged period of depressed consumer spending could have a material adverse effect on the Company's business and results. Promotional activities and decreased demand for consumer products could affect profitability and margins. Customer traffic is difficult to forecast and mitigate. As a consequence, sales, operating and financial results for a particular period are difficult

## Edgar Filing: FINISH LINE INC /IN/ - Form 10-K

to predict, and, therefore, it is difficult to forecast expected results for future periods. Any of the foregoing factors could have a material adverse effect on the Company's business, results of operations and financial condition and could adversely affect the Company's stock price.

Additionally, many of the effects and consequences of U.S. and global financial and economic conditions could potentially have a material adverse effect on the Company's liquidity and capital resources, including the ability to raise additional capital if needed or the ability of banks to honor draws on the Company's credit facility, or could otherwise negatively affect the Company's business and financial results. Although the Company normally generates funds from operations to pay operating expenses and fund capital expenditures and has a revolving credit agreement in place until November 30, 2017 and do not have any borrowings under it (other than amounts used for stand-by letters of credit), the ability to continue to meet these cash requirements over the long-term may require access to additional sources of funds, including capital and credit markets, and continuing market volatility, the impact of government intervention in financial markets and general economic conditions may adversely affect the ability of the Company to access capital and credit markets.

Global economic conditions may also adversely affect suppliers' access to capital and liquidity with which to maintain their inventory, production levels and product quality and to operate their businesses, all of which could adversely affect the Company's supply chain. Furthermore, suppliers might reduce their offerings of customer incentives and vendor allowances, cooperative marketing expenditures and product promotions. Market instability could make it more difficult for the Company and its suppliers to accurately forecast future product demand trends, which could cause the Company to carry too much or too little merchandise in various product categories. The current and recent past financial and economic conditions may also adversely affect landlords and real estate developers of retail space, which may limit the availability of attractive leased store locations. The current and recent past conditions may also adversely affect the Company's product liquidation efforts.

### ***The Company's business faces a great deal of competitive pressure.***

The athletic footwear and softgood business is highly competitive. The Company competes for customers, customer service professionals, locations, merchandise, services and other important aspects of its business with many other local, regional, national and branded vendor operated retailers. Those competitors, some of whom have a greater market presence than the Company, include traditional store-based retailers, Internet businesses and other forms of retail commerce. A factor in the Company's success is its ability to differentiate itself from its competitors. Unanticipated changes in the pricing and other practices of those competitors may adversely affect the Company's performance. The Company cannot guarantee competing successfully against current and/or future competition.

## **Table of Contents**

### ***The Company may experience fluctuations in results of operations due to seasonality of the business.***

The Company's business is subject to seasonal influences, with a major portion of sales and income historically realized during the second and fourth quarters of the fiscal year, which include the back-to-school and holiday seasons, respectively. This seasonality causes operating results to vary considerably from quarter to quarter and could materially and adversely affect the Company's results and stock price. In addition, comparable store sales are subject to significant fluctuation, on a monthly, quarterly and annual basis, and we anticipate this fluctuation to continue in the future.

### ***The Company's business is dependent on consumer preferences and fashion trends and successful management of inventory.***

The athletic footwear and softgood industry is subject to changing fashion trends and customer preferences. The Company cannot guarantee that its merchandise selection will accurately reflect customer preferences when it is offered for sale or that the Company will be able to identify and respond quickly to fashion trends and changes, particularly given the long lead times for ordering much of the Company's merchandise from vendors. For example, athletic footwear is ordered six to nine months prior to delivery to stores. Sufficient inventory levels must be maintained for the Company to operate its business successfully. However, the Company must guard against accumulating excess or irrelevant inventory. If the Company fails to accurately anticipate either the market for merchandise or customers' purchasing habits, the Company may be forced to rely on markdowns or promotional sales to dispose of excess, irrelevant slow moving inventory, which may adversely affect performance and results.

### ***The Company's business may be adversely affected by changes in merchandise sourcing.***

All of the Company's vendors must comply with applicable laws and required standards of conduct. The ability to find qualified vendors and access products in a timely and efficient manner can be a challenge, especially with respect to goods sourced outside the United States. Political or financial instability, trade restrictions, tariffs, currency exchange rates, transport capacity and costs and other factors relating to foreign trade, and the ability to access suitable merchandise on acceptable terms, are beyond the Company's control and could adversely impact performance and results.

### ***Changes in relationships with any of the Company's key vendors may have an adverse impact on future results.***

The Company's business is dependent to a significant degree upon the ability to purchase premium brand-name merchandise at competitive prices, including the receipt of volume discounts, cooperative advertising and markdown allowances from vendors. The Company purchased approximately 88% of its merchandise in fiscal 2013 from its top five vendors and expects to continue to obtain a significant percentage of its product from these vendors in future periods. Approximately 69% of merchandise was purchased from one vendor (Nike). The inability to obtain merchandise in a timely manner from major suppliers (particularly Nike) as a result of business decisions by suppliers or any disruption in the supply chain could have a material adverse effect on the business, financial condition and results of operations of the Company. Because of the strong dependence on Nike, any adverse development in Nike's financial condition and results of operations or the inability of Nike to develop and manufacture products that appeal to the Company's target customers could also have an adverse effect on the business, financial condition and results of operations of the Company.

### ***The Company's operations are dependent primarily on a single distribution center, and the loss of, or disruption in, the distribution center and other factors affecting the distribution of merchandise could have a material adverse effect on the Company's business and operations.***

The distribution functions for the Company are primarily handled from a single facility in Indianapolis, Indiana. Any significant interruption in the operation of the distribution facility due to natural disasters, accidents, system failures or other unforeseen causes could delay or impair the ability to distribute merchandise to stores and/or fulfill digital orders, which could cause sales to decline.

The Company depends upon third-party carriers for shipment of a significant amount of merchandise. An interruption in service by these third-party carriers for any reason could cause temporary disruptions in business, a loss of sales and profits, and other material adverse effects.

Freight costs are impacted by changes in fuel prices through surcharges among other factors. Fuel prices and surcharges affect freight costs both on inbound freight from suppliers to the distribution center as well as outbound freight from the distribution center to stores and shipments of product to customers. Increases in fuel prices and surcharges and other factors may increase freight costs.

### ***We may need to record significant non-cash impairment charges if our long-lived assets become impaired.***

## Edgar Filing: FINISH LINE INC /IN/ - Form 10-K

The Company reviews its property and equipment when events indicate that the carrying value of such assets may be impaired. Goodwill and other indefinite lived intangible assets are reviewed for impairment at a minimum, annually. Fair value is determined based on a combination of a discounted cash flow approach and market-based approach. If an impairment trigger is identified, the carrying value is compared to its estimated fair value and provisions for impairment are recorded as appropriate. Impairment losses are significantly affected by estimates of future operating cash flows and estimates of fair value. Estimates of future operating cash flows are identified from strategic long-range plans, which are based upon experience, knowledge, and expectations; however, these estimates can be affected by such factors as future operating results, future store profitability and future economic conditions, all of which can be difficult to predict accurately. Any significant deterioration in macroeconomic conditions could affect the fair value of our long-lived assets and could result in future impairment charges, which would adversely affect our results of operations.

***The Company's business may be adversely affected by the failure to identify suitable store locations and acceptable lease terms.***

To take advantage of customer traffic and shopping preferences, the Company needs to obtain and retain stores in desirable locations, such as in regional and neighborhood malls anchored by major department stores. The Company cannot be certain that desirable mall locations will continue to be available. Several large landlords dominate the ownership of prime malls in the United States and because of the dependence upon these landlords for a substantial number of the Company's store locations, any significant erosion of the relationships with these landlords or their financial condition would negatively affect the ability to obtain and retain locations. Additionally, further landlord consolidation may negatively affect the ability to obtain and retain store locations at acceptable lease terms. The Company's average lease term remaining for all stores is relatively short. Due to the short-term nature, the Company is subject to potential market changes, which could increase occupancy costs and adversely affect profitability.

## **Table of Contents**

***The Company's inability to implement its strategic plan and growth initiatives may have an adverse impact on future results.***

The Company's ability to succeed in its strategic plan and growth initiatives could require significant capital investment and management attention, which may result in the diversion of these resources from the core business and other business issues and opportunities. Additionally, any new initiative is subject to certain risks, including customer acceptance, competition, product differentiation, challenges to economies of scale in merchandise sourcing and the ability to attract and retain qualified management and other personnel. There can be no assurance that the Company will be able to develop and successfully implement its strategic plan and growth initiatives to a point where they will become profitable or generate positive cash flow. If the Company cannot successfully execute its strategic plan and growth initiatives, the Company's financial condition and results of operations may be adversely impacted.

***Changes in labor conditions, as well as the Company's inability to attract and retain the talent required for the business, may negatively affect operating results.***

Future performance will depend upon the Company's ability to attract, retain and motivate qualified employees, including store personnel, field management and senior management. Many sales associates are in entry level or part-time positions with historically high rates of turnover. The ability to meet the Company's labor needs while controlling costs is subject to external factors such as unemployment levels, prevailing wage rates, health care and minimum wage legislation and changing demographics. If the Company is unable to attract and retain quality sales associates and management, the ability to meet growth goals or to sustain expected levels of profitability may be compromised. In addition, a large number of the Company's retail employees are paid the prevailing minimum wage, which if increased would negatively affect profitability and could, if the increase were material, require the Company to adjust its business strategy, which may include the closure of less profitable stores. Although none of the Company's employees are currently covered under collective bargaining agreements, the Company cannot guarantee that employees will not elect to be represented by labor unions in the future. If some, or all, of the Company's workforce were to become unionized and collective bargaining agreement terms were significantly different from the Company's current compensation arrangements or work practices, it could have a material adverse effect on the Company's business, financial condition and results of operations.

***Because the Company's stock price may be volatile, it could experience substantial declines.***

The market price of the Company's common stock has historically experienced and may continue to experience volatility. The Company's quarterly operating results, changes in general conditions in the economy or the financial markets, and other developments affecting the Company, its key vendors or competitors, could cause the market price of the Company's common stock to fluctuate substantially. In recent years, the stock market has experienced significant price and volume fluctuations. This volatility has affected the market prices of securities issued by many companies, often for reasons unrelated to their operating performance, and may adversely affect the price of the Company's common stock.

***The Company cannot provide any guaranty of future dividend payments or that it will continue to repurchase stock pursuant to the stock repurchase program.***

The Company's Board of Directors determines if it is in the best interest of the Company to pay a dividend to its shareholders and declares all dividend payments. There is no assurance that the Board of Directors will continue to declare dividends in the future or that the Company's results of operations and financial condition will allow for a dividend to be declared. The Board of Directors amended the Company's current repurchase program to increase the authorization to 10 million shares and extend the authorization to repurchase shares through December 31, 2017. However, the Company is not obligated to make any purchases under the repurchase program and the program may be discontinued at any time.

***A security breach of the Company's information technology systems could damage the Company's reputation and have an adverse effect on operations and results.***

The Company accepts electronic payment cards from customers. The Company also receives and maintains certain personal information about customers and employees. A number of retailers have experienced security breaches in which credit and debit card information may have been stolen or compromised. While the Company has taken significant steps to prevent the occurrence of security breaches in this respect, including complying with the highest level of Payment Card Industry Security Standards, the Company may, in the future, become subject to claims for purportedly fraudulent transactions arising out of the theft or compromise of credit or debit card information, and may also be subject to lawsuits or other proceedings in the future relating to these types of incidents. Any such proceeding could be a distraction to the Company and cause significant unplanned losses and expenses. If the Company's security and information systems are compromised, if computer and mobile telephone equipment is lost or stolen, or employees fail to comply with the applicable laws and regulations and this information is obtained by unauthorized persons or used inappropriately or illegally, it could adversely affect the Company's reputation, as well as results of operations, and

could result in litigation, the imposition of penalties, or significant expenditures to remediate any damage to persons whose personal information has been compromised. The Company is continuously working to install new, and upgrade its existing, information technology systems to ensure that the Company is protected, to the greatest extent possible, against cyber risks and security breaches. However, there is no guarantee that the Company will not be affected by cyber risks or security breaches.

***A major failure of technology and information systems could adversely affect the Company's business.***

The efficient operation of the Company's business is dependent on technology and information systems. In particular, the Company relies on information systems to effectively manage sales, distribution, merchandise planning and allocation functions. The Company possesses offsite recovery capabilities for its information systems. However, the failure of technology and information systems to perform as designed could disrupt the Company's business and adversely affect sales and profitability. There is the risk that the Company could experience problems with its information systems due to system implementation issues, system outages or failures, viruses, hackers, or other causes.

***Various risks associated with digital sales may adversely affect the Company's business.***

The Company sells merchandise over the Internet through its websites, [www.finishline.com](http://www.finishline.com) and [www.run.com](http://www.run.com), as well as mobile at [m.finishline.com](http://m.finishline.com) ( digital ). The digital operations are subject to numerous risks, including unanticipated operating problems, reliance on third party computer hardware and software providers, system failures and the need to invest in additional computer systems. The digital operations also involve other risks that could have an impact on the Company's results of operations, including hiring, retention and training of personnel to conduct the digital operations, diversion of sales from the stores, rapid technological changes, liability for online content, credit card fraud and risks related to the failure of the computer systems that operate the website and its related support systems, including computer viruses, telecommunication failures and electronic break-ins and similar disruptions. There can be no assurance that the digital operations will continue to achieve sales and profitability growth or remain at their current or anticipated levels.

## **Table of Contents**

*The Company's business may be adversely affected by regulatory and litigation developments.*

Various aspects of the Company's operations are subject to federal, state or local laws, rules and regulations, any of which may change from time to time. Sales and results of operations may be adversely affected by new legal requirements, including comprehensive federal health care legislation enacted in 2010, and attendant regulations. For example, new legislation or regulations may result in increased costs directly for compliance or indirectly to the extent that such requirements increase prices of goods and services because of increased compliance costs. Additionally, the Company is regularly involved in various litigation matters that arise in the ordinary course of doing business. Litigation or regulatory developments could adversely affect the business operations and financial performance of the Company.

*Anti-takeover provisions under the Indiana Business Corporation Law and the Company's Restated Articles of Incorporation and Bylaws may render more difficult the accomplishment of mergers or the assumption of control by a principal shareholder, making more difficult the removal of management.*

Certain provisions of the Indiana Business Corporation Law (the "IBCL"), specifically the constituent interests provision in Section 23-1-35-1 of the IBCL, the control share acquisitions provisions in Sections 23-1-42-1 to 23-1-42-11, and the business combination provisions in Sections 23-1-43-1 to 23-1-43-24, and certain provisions of the Company's Restated Articles of Incorporation and Bylaws, specifically the provisions regarding preferred stock, the provisions requiring a supermajority vote for certain business combinations and for certain amendments to the Restated Articles of Incorporation, the provisions requiring approval of certain transactions by the continuing directors, the provisions for a staggered board and the provisions limiting removal of directors to removal for cause, may have the effect of discouraging an unsolicited attempt by another person or entity to acquire control of the Company. These provisions may make mergers, tender offers, the removal of management, and certain other transactions more difficult or more costly and could discourage or limit shareholder participation in such types of transactions, whether or not such transactions are favored by the majority of the Company's shareholders. Such provisions also could limit the price that investors might be willing to pay in the future for shares of the Company's common stock. Further, the existence of these anti-takeover measures may cause potential bidders to look elsewhere, rather than initiating acquisition discussions with the Company. Any of these factors could reduce the price of the Company's common stock.

*Other factors may negatively affect the Company's business and results.*

The foregoing list of risk factors is not exhaustive or exclusive. Other factors and unanticipated events could adversely affect the Company and its business and results. The Company does not undertake to revise any forward-looking statement to reflect events or circumstances that occur after the date the statement is made.

### **Item 1B Unresolved Staff Comments**

Not Applicable.

**Table of Contents****Item 2 Properties**

The Company's corporate headquarters and distribution center are located on 54 acres in Indianapolis, Indiana. The facility consists of 142,000 square feet of office space and 647,000 square feet of warehouse space. The facility, which is owned by the Company, was designed and constructed to the Company's specifications and includes automated conveyor and storage rack systems, a high speed shipping sorter and a tilt-tray sortation system. The Company also leases 5,500 square feet of corporate office space for the Company's Digital team in Boulder, Colorado.

**Store Locations**

At April 5, 2013, the Company operated 686 stores in 47 states and the District of Columbia. The Finish Line stores and Branded shops within department stores are primarily located in enclosed shopping malls and the Running Specialty stores are primarily located on street front locations. The following table sets forth information concerning the Company's stores.

State	Finish Line	Running Specialty	Branded shops within department stores	State	Finish Line	Running Specialty	Branded shops within department stores
Alabama	12			Nebraska	6		
Arizona	13			Nevada	5		1
Arkansas	6			New Hampshire	5		
California	41			New Jersey	11	5	1
Colorado	14			New Mexico	4		
Connecticut	8	1		New York	27	4	1
Delaware	1			North Carolina	15		
Florida	46	1		North Dakota	2		
Georgia	18			Ohio	40		
Idaho	2			Oklahoma	6		
Illinois	34			Oregon	1		
Indiana	24		1	Pennsylvania	39		
Iowa	8			Rhode Island	1		
Kansas	9			South Carolina	12		
Kentucky	8			South Dakota	1		
Louisiana	9			Tennessee	18		
Maine	1			Texas	62	9	2
Maryland	18	1		Utah	2		
Massachusetts	14	4	1	Virginia	25	1	
Michigan	25		1	Washington	9		
Minnesota	7			West Virginia	7		
Mississippi	7			Wisconsin	12		
Missouri	14			Wyoming	1		
Montana	1			District of Columbia		1	
Totals					651	27	8

Finish Line and Running Specialty lease all of their stores. Initial lease terms for the Company's leased stores are generally 10 years in duration without renewal options, although some of the stores are subject to leases for five years with one or more renewal options. The leases generally provide for a fixed minimum rental plus contingent rent, which is determined as a percentage of gross sales in excess of specified levels. Branded shops within department stores are under a license agreement based on a percentage of sales.

**Item 3 Legal Proceedings**

The Company is subject from time to time to certain legal proceedings and claims in the ordinary course of conducting its business. The Company will record a liability related to its legal proceedings and claims when it has determined that it is probable that the Company will be obligated to pay and the related amount can be reasonably estimated, and it will disclose the related facts in the footnotes to its financial statements, if material. If the Company determines that an obligation is reasonably possible, the Company will, if material, disclose the nature of



## Edgar Filing: FINISH LINE INC /IN/ - Form 10-K

the loss contingency and the estimated range of possible loss, or include a statement that no estimate of loss can be made. The Company believes there are no pending legal proceedings or claims in which the Company is currently involved which will have a material adverse effect on the Company's financial position, results of operations or cash flow.

## **Table of Contents**

### **Item 4 Mine Safety Disclosures**

Not applicable.

### **Item 4.5 Directors and Executive Officers of the Registrant**

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Officer or Director Since</b>
Glenn S. Lyon(6)	62	Chairman and Chief Executive Officer	2001
Steven J. Schneider	57	President and Chief Operating Officer	1989
Samuel M. Sato(6)	49	President, Finish Line Brand	2007
Edward W. Wilhelm	54	Executive Vice President, Chief Financial Officer	2009
Mark S. Landau(1)(6)	55	Executive Vice President, Chief Business Development Officer	2010
George S. Sanders	55	Executive Vice President, Real Estate and Store Development	1994
Michael L. Marchetti(2)	62	Executive Vice President, General Manager of Finish Line Macy	1995
Scott E. Hoffman	40	Executive Vice President, Chief Merchandising Officer	2012
Stephen Goldsmith(5)(6)(7)	66	Director	1999
Bill Kirkendall(3)(4)(6)(8)	59	Director	2001
William P. Carmichael(3)(9)	69	Director	2003
Catherine A. Langham(5)(10)	54	Director	2006
Dolores A. Kunda(4)(5)(11)	57	Director	2008
Norman H. Gurwitz(3)(4)(12)	65	Director	2009
Richard P. Crystal(4)(5)(6)(13)	68	Director	2009
Torrence Boone(6)(14)	43	Director	2011

- (1) Mr. Landau has served as Executive Vice President, Chief Business Development Officer of the Company since January 2012. Previously he had served as a member of the Board of Directors since 2010. Prior to joining the Company, Mr. Landau was Managing Director and Head of CRE Banking Americas for Deutsche Bank Securities, Inc.
- (2) Mr. Marchetti has served as Executive Vice President, General Manager of Finish Line Macy of the Company since October 2012. Previously he had served as Executive Vice President, Store Operations.
- (3) Member of the Audit Committee of the Board of Directors of the Company.
- (4) Member of the Compensation Committee of the Board of Directors of the Company.
- (5) Member of the Governance and Nominating Committee of the Board of Directors of the Company.
- (6) Member of the Strategy Committee of the Board of Directors of the Company.
- (7) Mr. Goldsmith is currently the Daniel Paul Professor of Government and Director of the Innovations in American Government Program at Harvard's Kennedy School of Government. He also serves as a Senior Strategic Advisor and Independent Consultant to the international law firm of McKenna Long and Aldridge LLP.
- (8) Mr. Kirkendall is a Managing Partner/President, Glen Oaks Country Club, West Des Moines, Iowa. Glen Oaks CC is the property of the private investment group, GOCC Investments, LLC. Mr. Kirkendall is also the Lead Advisor for the Board of Advisors for Golf Resources Inc, a worldwide golf design, management and consulting firm.
- (9) Mr. Carmichael currently serves as a trustee of the Columbia Funds Series Trust, Columbia Funds Series Trust II, Columbia Funds Master Investment Trust, Columbia Funds Variable Insurance Trust I and Columbia ETF Trust.
- (10) Ms. Langham is the co-founder, President and Chief Executive Officer of Langham Logistics, Inc, a global freight management company specializing in expedited transportation, warehousing and distribution.
- (11) Ms. Kunda is the founder, President and Chief Executive Officer of Lapiz, one of the largest Hispanic advertising agencies across the Americas, and the President of Leo Burnett Puerto Rico.
- (12) Mr. Gurwitz is a former advisor to and Vice President, Corporate Counsel and Director of Human Resources of Emmis Communications, an owner and operator of radio stations and magazines throughout the United States and Europe.
- (13) Mr. Crystal is the former Chairman and Chief Executive Officer of women's clothing retailer New York & Company.
- (14) Mr. Boone is Managing Director of Agency Business Development for Google.

**Table of Contents****PART II****Item 5 Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

The Company's Class A Common Stock is traded on the Nasdaq Global Select Market under the ticker symbol FINL.

The following table sets forth, for the periods indicated, the range of high and low sale prices for the Company's Class A Common Stock as reported by the Nasdaq Stock Market.

Quarter Ended	Fiscal 2013		Fiscal 2012	
	High	Low	High	Low
May	\$ 26.16	\$ 19.18	\$ 23.27	\$ 16.97
August	23.55	17.87	23.64	16.42
November	24.90	19.71	22.31	17.80
February	20.89	16.87	24.48	18.71

As of April 5, 2013, there were approximately 2,962 record holders of Class A Common Stock. The number of Class A Common Stock record holders excludes the beneficial owners of shares held in street name or held through participants in depositories.

On January 16, 2013, the Company's Board of Directors increased its quarterly cash dividend by 17% to \$0.07 per share of Class A Common Stock. The Company declared dividends of \$12.5 million and \$11.0 million during fiscal 2013 and 2012, respectively. As of March 2, 2013 and March 3, 2012, dividends declared but not paid of \$3.4 million and \$3.1 million, respectively, were accrued in Other liabilities and accrued expenses on the Consolidated Balance Sheets. The Company expects to continue to pay dividends on a quarterly basis and review for increases annually; however, further declarations of dividends remain at the discretion of the Company's Board of Directors.

On July 21, 2011, the Company's Board of Directors authorized the repurchase of up to 5,000,000 shares of the Company's Class A common stock outstanding through December 31, 2014. On January 3, 2013, the Company's Board of Directors amended the Plan (the Amended Plan) and authorized the repurchase of an additional 5,000,000 shares of the Company's Class A common stock, which authorization shall expire on December 31, 2017. The Company purchased 3,879,759 shares at an average price of \$19.90 per share for an aggregate amount of \$77.2 million in fiscal 2013. As of March 2, 2013, there were 4,920,341 shares remaining available to repurchase under the Amended Plan.

As of March 2, 2013, the Company holds as treasury shares 11,394,288 shares of its Class A Common Stock at an average price of \$17.35 per share for an aggregate amount of \$197.7 million. The treasury shares may be issued upon the exercise of employee stock options, issuance of shares for the Employee Stock Purchase Plan, issuance of restricted stock, or for other corporate purposes. Further purchases will occur from time to time as market conditions warrant and as the Company deems appropriate when judged against other alternative uses of cash.

## Table of Contents

Month		Total Number of Shares Purchased	Average Price Paid per Share(1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Program
December 2, 2012	January 5, 2013	327,239	\$ 18.68	327,239	5,923,457
January 6, 2013	February 2, 2013	1,003,116	\$ 17.42	1,003,116	4,920,341
February 3, 2013	March 2, 2013		\$		4,920,341
		1,330,355	\$ 17.73	1,330,355	

(1) The average price paid per share includes any brokerage commissions.

**Table of Contents**

**Table of Contents****Item 6 Selected Financial Data**

	Year Ended				
	March 2, 2013	March 3, 2012	February 26, 2011	February 27, 2010	February 28, 2009
	(in thousands, except per share and store operating data)				
Statement of Operations Data(1):					
Net sales	\$ 1,443,365	\$ 1,369,259	\$ 1,229,002	\$ 1,172,415	\$ 1,194,657
Cost of sales (including occupancy costs)	958,921	889,130	815,073	793,556	828,139
Gross profit	484,444	480,129	413,929	378,859	366,518
Selling, general and administrative expenses	365,883	343,629	302,718	297,323	312,011
Store closing costs	671	1,191	350	2,707	492
Terminated merger-related income, net					(1,969)
Impairment charges	5,593	974	1,228	6,771	6,118
Operating income	112,297	134,335	109,633	72,058	49,866
Interest income, net	198	447	508	322	814
Income from continuing operations before income taxes	112,495	134,782	110,141	72,380	50,680
Income tax expense(2)	43,314	49,978	41,277	21,547	20,278
Income from continuing operations	69,181	84,804	68,864	50,833	30,402
Loss from discontinued operations, net of income tax benefit			(30)	(15,161)	(26,644)
Net loss attributable to redeemable noncontrolling interest	2,292				
Net income attributable to The Finish Line, Inc.	\$ 71,473	\$ 84,804	\$ 68,834	\$ 35,672	\$ 3,758
Earnings Per Share Data(1):					
Basic earnings from continuing operations	\$ 1.42	\$ 1.62	\$ 1.28	\$ 0.92	\$ 0.56
Diluted earnings from continuing operations	\$ 1.40	\$ 1.59	\$ 1.26	\$ 0.92	\$ 0.55
Dividends declared per share	\$ 0.25	\$ 0.21	\$ 0.17	\$ 0.13	\$ 0.09
Share Data:					
Basic weighted-average shares	49,824	52,020	52,979	54,221	53,846
Diluted weighted-average shares(3)	50,491	52,818	53,775	54,597	54,108
Selected Store Operating Data:					
Number of stores					
Acquired during year	6	18			
Opened during year	34	5	11	5	9
Closed during year	(21)	(31)	(13)	(28)	(17)
Open at end of year	675	656	664	666	689
Total square feet(4)	3,594,806	3,498,090	3,564,277	3,590,780	3,746,413
Average square feet per store(4)	5,326	5,332	5,368	5,392	5,437
Net sales per square foot for comparable stores(5)(6)	\$ 353	\$ 339	\$ 317	\$ 298	\$ 297
Increase (decrease) in comparable store net sales(6)(7)	5.8%	9.2%	6.3%	(0.5)%	0.3%
Balance Sheet Data:					
Working capital	\$ 357,657	\$ 414,065	\$ 383,264	\$ 328,664	\$ 279,237
Total assets	\$ 706,422	\$ 711,496	\$ 664,845	\$ 610,268	\$ 598,733
Total debt	\$	\$	\$	\$	\$
Shareholders' equity	\$ 524,863	\$ 529,537	\$ 490,245	\$ 442,150	\$ 424,394

## Edgar Filing: FINISH LINE INC /IN/ - Form 10-K

- (1) Fiscal 2012 includes 53 weeks versus 52 weeks in all other years presented.
- (2) Fiscal 2010 amount includes a \$6.5 million one-time tax benefit regarding the tax treatment of the terminated merger and litigation expenses.
- (3) Consists of weighted-average common and common equivalent shares outstanding for the year.
- (4) Computed as of the end of each fiscal year.
- (5) Calculation includes all stores that are open at the year-end and that have been open more than one year. Accordingly, stores opened and closed during the year are not included. Calculation excludes digital sales. Calculated excluding sales for the 53<sup>rd</sup> week in fiscal 2012.
- (6) Running Specialty stores are not included in this calculation.
- (7) Calculation includes all stores that are open at the year-end and that have been open more than one year. Accordingly, stores opened and closed during the year are not included. Calculation includes digital sales.

## **Table of Contents**

### **Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations**

#### ***Executive Summary***

During fiscal 2013, there were a few highlights which included an innovative partnership with Gart Capital Partners in relation to Running Specialty and our announcement of Finish Line to become the exclusive provider of athletic shoes for Macy's, both in-store and online. The Company remained committed to its strategic plan to put capital investments into our people, technology and stores. Also, the Company continued to provide returns to our shareholders through dividends and stock repurchases totaling over \$89 million. An overview of the detailed results is discussed below. Note that fiscal 2013 included fifty-two weeks and fiscal 2012 included fifty-three weeks.

Net sales increased 5.4% to \$1,443.4 million in fiscal 2013 compared to \$1,369.3 million in fiscal 2012.

Comparable store net sales for fiscal 2013 increased 5.8%.

Digital comparable sales (which are included in comparable store net sales) increased 25.1%.

Net sales per square foot for comparable stores increased by \$14 to \$353.

Gross profit was \$484.4 million (33.6% of net sales) in fiscal 2013 compared to \$480.1 million (35.1% of net sales) in fiscal 2012.

0.8% decrease in product margin, net of shrink, as a percentage of net sales.

Occupancy costs increased by 0.7% as a percentage of net sales.

SG&A expenses were \$365.9 million (25.3% of net sales) in fiscal 2013 compared to \$343.6 million (25.1% of net sales) in fiscal 2012.

0.2% deleverage as a percentage of net sales.

Investments in information technology and digital capabilities in addition to variable SG&A in association with digital sales which grew as a percentage of total sales to 12.6% from 10.9% in the prior year.

Operating income was \$112.3 million (7.8% of net sales) in fiscal 2013 compared to \$134.3 million (9.8% of net sales) in fiscal 2012.

\$22.0 million decline or 16.4%.

2.0% deleverage as a percentage of net sales.



## Edgar Filing: FINISH LINE INC /IN/ - Form 10-K

\$5.6 million impairment charges of underperforming stores and updated website.

Net income attributable to The Finish Line, Inc. was \$71.5 million (5.0% of net sales) in fiscal 2013 compared to \$84.8 million (6.2% of net sales) in fiscal 2012.

\$13.3 million decline or 15.7%.

Diluted earnings per share attributable to The Finish Line, Inc. shareholders of \$1.40 in fiscal 2013 compared to \$1.59 in fiscal 2012.

Cash and cash equivalents were \$227.0 million on March 2, 2013 with no interest bearing debt.

Generated cash from operations of \$81.5 million in fiscal 2013.

Cash outlay for capital expenditures was \$81.6 million, with an additional \$9.7 million within accounts payable on March 2, 2013.

Paid \$12.1 million of dividends to shareholders in fiscal 2013.

Repurchased 3.9 million shares of Common Stock totaling \$77.2 million during fiscal 2013.

## **Table of Contents**

### **Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)**

Opened 29 new and closed 21 Finish Line stores during fiscal 2013, ending the year with 645 Finish Line stores.

Acquired 6 Running Specialty stores and opened 2 new stores during fiscal 2013, ending the year with 27 Running Specialty stores

Opened 3 Branded shops within department stores during fiscal 2013.

### **Critical Accounting Policies**

Management's Discussion and Analysis of Financial Condition and Results of Operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates these estimates, including those related to the valuation of inventories, the potential impairment of long-lived assets and income taxes. The Company bases the estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Management believes the following critical accounting policies affect the more significant judgments and estimates used in preparation of its consolidated financial statements.

**Costs of Sales.** Costs of sales include the cost associated with acquiring merchandise from vendors, occupancy costs, license fees, provision for inventory shortages, and credits and allowances from our merchandise vendors. Cash consideration received from merchandise vendors after the related merchandise has been sold is recorded as an offset to cost of sales in the period negotiations are finalized. For cash consideration received on merchandise still in inventory, the allowance is recorded as a reduction to the cost of on-hand inventory and recorded as a reduction of our cost of sales at the time of sale.

Because the Company does not include the costs associated with operating its distribution facility and freight within cost of sales, the Company's gross profit may not be comparable to those of other retailers that may include all costs related to their distribution facilities in costs of sales and in the calculation of gross profit.

**Valuation of Inventories.** Merchandise inventories are valued at the lower of cost or market using a weighted-average cost method, which approximates the first-in, first-out method. The Company's valuation of inventory includes markdown adjustments for merchandise that will be sold below cost and the impact of shrinkage. Markdowns are based upon historical information and assumptions about future demand and market conditions. Shrinkage is based on historical information and assumptions as to current shrink trends. It is possible that changes to the markdowns and shrinkage estimates could be required in future periods due to changes in market conditions.

**Impairment of Long-Lived Assets.** The Company reviews its property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company considers historical performance and future estimated results in its evaluation of potential impairment and then compares the carrying amount of the asset to the estimated non-discounted future cash flows expected to result from the use of the asset. If such assets are considered to be impaired, the impairment recognized is measured by comparing projected individual store discounted cash flows to the asset carrying values. The estimation of fair value is measured by discounting expected future cash flows at the discount rate the Company utilizes to evaluate potential investments. Actual results may differ from these estimates and as a result the estimation of fair values may be adjusted in the future.

The impairment charge for property and equipment for fiscal 2013 of \$5.6 million was primarily a result of \$3.7 million associated with the Company's updated website that launched during the third quarter of fiscal 2013. Subsequently, it became apparent that there was a degradation of the customer experience, evidenced by a decline in several key performance indicators. Therefore, the Company made the strategic decision to transition back to the Company's legacy website given the importance of the selling season. In February 2013, the Company made the decision to permanently abandon the updated website. The impairment charges also included \$1.9 million for long-lived assets of 6 underperforming stores.



## Table of Contents

### Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

**Operating Leases.** The Company leases retail stores under operating leases. Many lease agreements contain rent holidays, rent escalation clauses and/or contingent rent provisions. The Company recognizes rent expense for minimum lease payments on a straight-line basis over the expected lease term, including cancelable option periods where failure to exercise such options would result in an economic penalty. The Company uses a time period for its straight-line rent expense calculation that equals or exceeds the time period used for depreciation. In addition, the commencement date of the lease term is the earlier of the date when the Company becomes legally obligated for the rent payments or the date when the Company takes possession of the leased space for build out. Contingent rents are determined as a percentage of gross sales in excess of specified levels. The Company records a contingent rent liability in Other liabilities and accrued expenses on the Consolidated Balance Sheets and the corresponding rent expense when specified levels have been achieved or when management determines that achieving the specified levels during the fiscal year is probable.

**Income Taxes.** The Company accounts for income taxes under the asset and liability method. Under this method, the amount of taxes currently payable or refundable are accrued and deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets are also recognized for realizable loss and tax credit carryforwards. The deferred tax assets may be reduced by a valuation allowance, which is established when it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. In addition, management is required to evaluate all available evidence including estimating future taxable income by taxing jurisdictions, the future reversal of temporary differences, tax planning strategies, and recent results of operations when making its judgment to determine whether or not to record a valuation allowance for a portion, or all, of its deferred tax asset. Deferred tax assets and liabilities are measured using enacted income tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in income tax rates is recognized in the Company's Consolidated Statements of Income in the period that includes the enactment date.

The Company calculates an annual effective income tax rate based on annual income, permanent differences between book and tax income and statutory income tax rates. The Company adjusts the annual effective income tax rate as additional information on outcomes or events becomes available. The Company's effective income tax rate is affected by items including changes in tax law, the tax jurisdiction of new stores or business ventures, the level of earnings or losses, the results of tax audits and the level of investment income.

The Company's income tax returns, like those of most companies, are periodically audited by tax authorities. These audits include questions regarding the Company's tax filing positions, including the timing and amount of deductions and the allocation of income among various tax jurisdictions. At any one time, multiple tax years are subject to audit by the various tax authorities. The Company accounts for uncertainty in income taxes using a two-step approach for evaluating income tax positions. The first step requires the Company to conclude that a tax position, based solely on its technical merits, is more likely than not to be sustained upon examination by a tax authority. The second step applies if the Company has concluded that the tax position is more likely than not to be sustained upon examination and requires the Company to measure the largest amount of benefit, determined on a cumulative probability basis, which it is more likely than not to be realized upon ultimate settlement. The Company adjusts its accrual for uncertain tax positions and income tax provision in the period in which matters are effectively settled with tax authorities at amounts different from its established accrual, the statute of limitations expires for the relevant taxing authority to examine the tax position or when more information becomes available. The Company includes its accrual for uncertain tax positions, including accrued penalties and interest, in Other long-term liabilities on the Consolidated Balance Sheets unless the liability is expected to be paid within one year. Changes to the accrual for uncertain tax positions, including accrued penalties and interest, are included in Income tax expense on the Consolidated Statements of Income.

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)**

**Recent Accounting Pronouncements.** In July 2012, the Financial Accounting Standards Board issued Accounting Standards Update ( ASU ) 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment*. This update amended the procedures for testing the impairment of indefinite-lived intangible assets by permitting an entity to first assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible assets are impaired. An entity's assessment of the totality of events and circumstances and their impact on the entity's indefinite-lived intangible assets will then be used as a basis for determining whether it is necessary to perform the quantitative impairment test as described in Accounting Standard Codification ( ASC ) 350-30, *Intangibles Goodwill and Other - General Intangibles Other than Goodwill*. This ASU will be effective for the Company on March 3, 2013. The adoption of this guidance is not expected to have a significant effect on the Company's consolidated financial statements.

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

**Results of Operations**

**General.** The following discussion and analysis should be read in conjunction with the information set forth under *Selected Financial Data* and the Consolidated Financial Statements and Notes thereto included elsewhere herein.

The Company uses a Retail calendar. The Company's fiscal year ends on the Saturday closest to the last day of February and included 52 weeks in fiscal 2013 and 2011 and 53 weeks in fiscal 2012.

The following table sets forth store and square feet information of the Company for each of the following periods:

	<b>Year Ended</b>	
	<b>March 2, 2013</b>	<b>March 3, 2012</b>
<b>Number of Stores:</b>		
<b>Finish Line</b>		
Beginning of year	637	664
Opened	29	4
Closed	(21)	(31)
End of year	645	637
<b>Branded shops within department stores</b>		
Beginning of year		
Opened	3	
Closed		
End of year	3	
<b>Running Specialty</b>		
Beginning of year	19	
Acquired	6	18
Opened	2	1
Closed		
End of year	27	19
<b>Total</b>		
Beginning of year	656	664
Acquired	6	18
Opened	34	5

# Edgar Filing: FINISH LINE INC /IN/ - Form 10-K

Closed	(21)	(31)
End of year	675	656

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)**

	March 2, 2013	March 3, 2012
<b>Square feet information as of:</b>		
<b>Finish Line</b>		
Square feet	3,511,128	3,440,788
Average store size	5,444	5,402
<b>Branded shops within department stores</b>		
Square feet	3,483	
Average store size	1,161	
<b>Running Specialty</b>		
Square feet	80,195	57,302
Average store size	2,970	3,016
<b>Total</b>		
Square feet	3,594,806	3,498,090

The following table sets forth net sales of the Company by major category for each of the following years (in thousands):

Category	March 2, 2013		Year Ended March 3, 2012		February 26, 2011	
Footwear	\$ 1,237,685	86%	\$ 1,177,114	86%	\$ 1,056,586	86%
Softgoods	205,680	14%	192,145	14%	172,416	14%
Total	\$ 1,443,365	100%	\$ 1,369,259	100%	\$ 1,229,002	100%

The following table and subsequent discussion set forth operating data of the Company as a percentage of net sales for the years indicated below.

	March 2, 2013	Year Ended March 3, 2012	February 26, 2011
<b>Income Statement Data:</b>			
Net sales	100.0%	100.0%	100.0%
Cost of sales (including occupancy costs)	66.4	64.9	66.3
Gross profit	33.6	35.1	33.7
Selling, general and administrative expenses	25.3	25.1	24.6
Store closing costs	0.1	0.1	
Impairment charges	0.4	0.1	0.1
Operating income	7.8	9.8	9.0
Interest income, net			
Income from continuing operations before income taxes	7.8	9.8	9.0
Income tax expense	3.0	3.6	3.4
Net income	4.8	6.2	5.6
Net loss attributable to redeemable noncontrolling interest	0.2		

## Edgar Filing: FINISH LINE INC /IN/ - Form 10-K

Net income attributable to The Finish Line, Inc.	5.0%	6.2%	5.6%
--	------	------	------



**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)****Fifty-Two Weeks Ended March 2, 2013 Compared to the Fifty-Three Weeks Ended March 3, 2012.*****Net Sales***

	Year Ended	
	March 2, 2013	March 3, 2012
	(dollars in thousands)	
Net sales	\$ 1,443,365	\$ 1,369,259
Comparable store net sales increase	5.8%	9.2%

Net sales increased 5.4% for fiscal 2013 compared to fiscal 2012. The increase was primarily attributable to a comparable store net sales increase for Finish Line of 5.8% during fiscal 2013 resulting primarily from a 4.4% increase in store average dollar per transaction, a 0.9% increase in store traffic and a 25.1% increase in digital sales. Comparable store footwear sales for the fifty-two weeks ended March 2, 2013 increased 6.1% while comparable store softgoods sales increased 4.5%.

***Cost of Sales (Including Occupancy Costs) and Gross Profit***

	Year Ended	
	March 2, 2013	March 3, 2012
	(dollars in thousands)	
Cost of sales (including occupancy costs)	\$ 958,921	\$ 889,130
Gross profit	\$ 484,444	\$ 480,129
Gross profit as a percentage of net sales	33.6%	35.1%

The 1.5% decrease in gross profit, as a percentage of net sales, was primarily due to a 0.8% decrease in product margin, net of shrink, as a percentage of net sales, and a 0.7% increase in occupancy costs, as a percentage of net sales. The 0.8% decrease in product margin, as a percentage of net sales, was primarily due to selling a lower proportion of full price product related to markdowns as we continually adjusted our product assortments to customer demands. Also, digital sales, which typically have a lower overall product margin than stores, increased as a percentage of total net sales as compared to the prior year. The 0.7% increase in occupancy costs, as a percentage of net sales, reflects more store openings than closings, as well as, longer lease term agreements entered into for some of our better performing stores during 2013.

***Selling, General and Administrative Expenses***

	Year Ended	
	March 2, 2013	March 3, 2012
	(dollars in thousands)	
Selling, general and administrative expenses	\$ 365,883	\$ 343,629
Selling, general and administrative expenses as a percentage of net sales	25.3%	25.1%

The \$22.3 million increase in selling, general and administrative expenses for the fifty-two weeks ended March 2, 2013 as compared to the fifty-three weeks ended March 3, 2012 was primarily due to the following: (1) variable costs in fulfillment, freight and payroll in conjunction with the 25.1% increase in comparable digital sales as well as the increase in store sales; (2) an increase in marketing expense to drive traffic to our website and our stores; (3) investments to support the Company's technology upgrades, digital platform and omni-channel strategy; (4) additional expenses associated with the Running Specialty business growth; and (5) start-up costs associated with the Macy's agreement.

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)*****Store Closing Costs***

	<b>Year Ended</b>	
	<b>March 2, 2013</b>	<b>March 3, 2012</b>
	<b>(dollars in thousands)</b>	
Store closing costs	\$ 671	\$ 1,191
Store closing costs as a percentage of net sales	0.1%	0.1%
Number of stores closed	21	31

Store closing costs represent the non-cash write-off of any fixtures and equipment upon a store closing. The \$0.5 million decrease in store closing costs is a function of less stores closed during fiscal 2013 compared to fiscal 2012 that had remaining book value.

***Impairment Charges***

	<b>Year Ended</b>	
	<b>March 2, 2013</b>	<b>March 3, 2012</b>
	<b>(dollars in thousands)</b>	
Impairment charges	\$ 5,593	\$ 974
Impairment charges as a percentage of net sales	0.4%	0.1%
Number of stores impaired	6	4

The fiscal 2013 impairment charge of \$5.6 million was primarily a result of \$3.7 million associated with the Company's updated website that launched during the third quarter of fiscal 2013. Subsequently, it became apparent that there was a degradation of the customer experience, evidenced by a decline in several key performance indicators. As a result, the Company made the strategic decision to transition back to the Company's legacy website given the importance of the selling season. In February 2013, the Company made the decision to permanently abandon the updated website. The impairment charges also included \$1.9 million for long-lived assets of 6 underperforming stores. The fiscal 2012 impairment charge of \$1.0 million was a result of the write-off of long-lived assets of 4 underperforming stores.

***Interest Income, Net***

	<b>Year Ended</b>	
	<b>March 2, 2013</b>	<b>March 3, 2012</b>
	<b>(dollars in thousands)</b>	
Interest income, net	\$ 198	\$ 447
Interest income, net as a percentage of net sales	%	%

The decrease of \$0.2 million was due to lower invested balances for fiscal 2013 compared to fiscal 2012.

***Income Tax Expense***

	<b>Year Ended</b>	
	<b>March 2, 2013</b>	<b>March 3, 2012</b>
	<b>(dollars in thousands)</b>	
Income tax expense	\$ 43,314	\$ 49,978
Income tax expense as a percentage of net sales	3.0%	3.6%
Effective income tax rate	38.5%	37.1%

## Edgar Filing: FINISH LINE INC /IN/ - Form 10-K

The increase in the effective tax rate in fiscal 2013 exists because the Company may only record a tax benefit on its percentage share of the Running Specialty loss while 100% of the Running Specialty loss is included in income before income taxes. The increase also exists because of the release of a reserve for uncertain tax positions of approximately \$1.0 million in fiscal 2012 related to the resolution of a state income tax audit that was only partially offset in fiscal 2013 by the release of a reserve for uncertain tax positions of \$0.3 million related to the resolution of a U.S. federal income tax audit.

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)*****Net Loss Attributable To Redeemable Noncontrolling Interest***

	Year Ended	
	March 2, 2013	March 3, 2012
	(dollars in thousands)	
Net loss attributable to redeemable noncontrolling interest	\$ 2,292	\$
Net loss attributable to redeemable noncontrolling interest as a percentage of net sales	0.2%	%

Net loss attributable to redeemable noncontrolling interest for fiscal 2013 represents 49% of the net loss generated by Running Specialty since March 29, 2012, which was the date of the investment by GCPI SR LLC.

***Net Income Attributable To The Finish Line, Inc.***

	Year Ended	
	March 2, 2013	March 3, 2012
	(dollars in thousands, except per share data)	
Net income attributable to The Finish Line, Inc.	\$ 71,473	\$ 84,804
Net income attributable to The Finish Line, Inc. as a percentage of net sales	5.0%	6.2%
Net income attributable to The Finish Line, Inc. shareholders per diluted share	\$ 1.40	\$ 1.59

The 1.2% decrease in net income attributable to The Finish Line, Inc., as a percentage of net sales, was primarily due to the decrease in product margin, increase in occupancy costs and increase in impairment charges, as a percentage of net sales.

**Fifty-Three Weeks Ended March 3, 2012 Compared to the Fifty-Two Weeks Ended February 26, 2011.*****Net Sales***

	Year Ended	
	March 3, 2012	February 26, 2011
	(dollars in thousands)	
Net sales	\$ 1,369,259	\$ 1,229,002
Comparable store net sales increase	9.2%	6.3%

Net sales increased 11.4% for fiscal 2012 compared to fiscal 2011. The increase was primarily a result of a comparable store net sales increase of 9.2% during fiscal 2012 as well as an additional 7 days of sales in fiscal 2012 that resulted in additional net sales of \$30.5 million. The 9.2% comparable store sales was a result of a 3.5% increase in average dollar per transaction, a 1.2% increase in store conversion, 1.3% increase in store traffic, and a 49.5% increase in digital sales. Comparable store footwear sales for the fifty-three weeks ended March 3, 2012 increased 9.5% while comparable store softgoods sales increased 7.8%.

***Cost of Sales (Including Occupancy Costs) and Gross Profit***

# Edgar Filing: FINISH LINE INC /IN/ - Form 10-K

	Year Ended	
	March 3, 2012	February 26, 2011
	(dollars in thousands)	
Cost of sales (including occupancy costs)	\$ 889,130	\$ 815,073
Gross profit	\$ 480,129	\$ 413,929
Gross profit as a percentage of net sales	35.1%	33.7%

The 1.4% increase in gross profit, as a percentage of net sales, was a result of a 1.2% decrease in occupancy costs as a percentage of net sales and a 0.2% increase in product margin, net of shrink, as a percentage of net sales. The 1.2% decrease in occupancy costs as a percentage of net sales is primarily the result of leveraging the 9.2% comparable store net sales increase and operating 27 net fewer Finish Line stores at March 3, 2012 compared to February 26, 2011, partially offset by the addition of 19 Running Specialty stores. The 0.2% increase in product margin as a percentage of net sales is primarily the result of disciplined inventory management providing the ability to have more premium products on-hand. This created less mark-downs in stores, as well as improved inventory turns, which resulted in improved sell through at full retail on premium product.

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)*****Selling, General and Administrative Expenses***

	Year Ended March 3, 2012	February 26, 2011
	(dollars in thousands)	
Selling, general and administrative expenses	\$ 343,629	\$ 302,718
Selling, general and administrative expenses as a percentage of net sales	25.1%	24.6%

The \$40.9 million increase in selling, general and administrative expenses for the fifty-three weeks ended March 3, 2012 as compared to the fifty-two weeks ended February 26, 2011 was primarily due to the following: (1) strategic spending in marketing initiatives to drive traffic to our digital sites and our stores; (2) variable costs in fulfillment, freight and payroll increased in conjunction with the 49.5% increase in digital sales as well as the increase in store sales; and (3) additional expenses associated with the Running Specialty stores.

***Store Closing Costs***

	Year Ended March 3, 2012	February 26, 2011
	(dollars in thousands)	
Store closing costs	\$ 1,191	\$ 350
Store closing costs as a percentage of net sales	0.1%	%
Number of stores closed	31	13

Store closing costs represent the non-cash write-off of any fixtures and equipment upon a store closing. The \$0.8 million increase in store closing costs is a function of more stores closed during fiscal 2012 compared to fiscal 2011 that had remaining book value.

***Impairment Charges***

	Year Ended March 3, 2012	February 26, 2011
	(dollars in thousands)	
Impairment charges	\$ 974	\$ 1,228
Impairment charges as a percentage of net sales	0.1%	0.1%
Number of stores impaired	4	5

Impairment charges primarily represent the non-cash write-off of long-lived assets on underperforming stores.

***Interest Income, Net***

	Year Ended March 3, 2012	February 26, 2011
	(dollars in thousands)	
Interest income, net	\$ 447	\$ 508
Interest income, net as a percentage of net sales	%	%

The slight decrease was due to lower earned interest rates for fiscal 2012 compared to fiscal 2011, partially offset by higher balances invested.



**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)*****Income Tax Expense***

	<b>Year Ended</b>	
	<b>March 3, 2012</b>	<b>February 26, 2011</b>
	<b>(dollars in thousands)</b>	
Income tax expense	\$ 49,978	\$ 41,277
Income tax expense as a percentage of net sales	3.6%	3.4%
Effective income tax rate	37.1%	37.5%

The decrease in the effective tax rate in fiscal 2012 is the result of the favorable completion of a state income tax audit of approximately \$1.0 million for which an uncertain tax position reserve was reversed.

***Net income attributable to The Finish Line, Inc.***

	<b>Year Ended</b>	
	<b>March 3, 2012</b>	<b>February 26, 2011</b>
	<b>(dollars in thousands, except per share data)</b>	
Net income attributable to The Finish Line, Inc.	\$ 84,804	\$ 68,834
Net income attributable to The Finish Line, Inc. as a percentage of net sales	6.2%	5.6%
Net income attributable to The Finish Line, Inc. shareholders per diluted share	\$ 1.59	\$ 1.26

The \$16.0 million increase in net income attributable to The Finish Line, Inc. for fiscal 2012 compared to fiscal 2011 is attributable to the 11.4% net sales improvement, improved product margins, better leverage on occupancy costs and managing expenses as discussed above.

**Liquidity and Capital Resources.** The Company's primary source of working capital is cash flow from operations. The following table sets forth material balance sheet and liquidity measures of the Company (dollars in thousands):

	<b>March 2, 2013</b>	<b>March 3, 2012</b>
Cash and cash equivalents	\$ 226,982	\$ 307,494
Merchandise inventories, net	\$ 243,770	\$ 220,405
Interest-bearing debt	\$	\$
Working capital	\$ 357,657	\$ 414,065



## **Table of Contents**

### **Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)**

#### *Operating Activities*

Net cash provided by operations was \$81.5 million, \$94.7 million and \$108.6 million for fiscal 2013, 2012 and 2011, respectively. At March 2, 2013, the Company had cash and cash equivalents of \$227.0 million, which represents an \$80.5 million decrease from March 3, 2012. Cash and cash equivalents consist primarily of cash on hand and all highly liquid instruments purchased with a maturity of three months or less at the date of purchase. At March 2, 2013, substantially all of the Company's cash was invested in deposit accounts at banks. Net cash provided by operating activities decreased by \$13.2 million in fiscal 2013 compared to fiscal 2012. This decrease is primarily the result of a decrease in net income and a net increase in the cash outflow in working capital balances for fiscal 2013 compared to fiscal 2012.

Consolidated inventories increased 10.6% at March 2, 2013 compared to March 3, 2012. Finish Line inventories increased 9.1% at March 2, 2013 compared to March 3, 2012. The increase over the prior year was to support the positive comparable store sales as well as an increase in store openings, net of closings.

#### *Investing Activities*

Capital expenditures were \$81.6 million, \$29.1 million and \$19.1 million for fiscal 2013, 2012 and 2011, respectively. Expenditures in fiscal 2013 were primarily for the construction of 29 new Finish Line stores and 2 Running Specialty stores, the remodeling and repositioning of existing stores, digital investments, store technology and core merchandising, supply chain and CRM system investments. In addition to \$81.6 million of cash paid in fiscal 2013, \$9.7 million of property and equipment was accrued in accounts payable at March 2, 2013.

The Company launched its updated website during the third quarter of fiscal 2013. Following the launch, it quickly became apparent that there was a degradation of the customer experience, evidenced by a decline in several key performance indicators. Therefore, the Company made the strategic decision on December 6, 2012 to transition back to its previous website given the importance of the selling season. In February 2013, the Company made the decision to permanently abandon the updated website.

The Company intends to invest approximately \$80-\$90 million in capital expenditures for the upcoming fiscal year. Of this amount, approximately \$8-\$10 million is intended for the construction of approximately 20-25 new Finish Line stores, and approximately \$15-\$17 million is intended for the remodeling or repositioning of 25-30 existing Finish Line stores with additional brand shops such as our Nike Track Club, Brand Jordan, as well as other key brand partnerships for store-within-store models. In addition, approximately \$18 million is expected to be spent on building out Branded shops within department stores. The Company anticipates satisfying all of these capital expenditures through the use of cash-on-hand and operating cash flow. The remaining \$39-\$45 million to be invested is related primarily to projected capital expenditures of approximately \$22-\$25 million intended for IT infrastructure investments to support new supply chain and merchandise systems and approximately \$4-\$5 million intended for technology to support growth in our digital business and \$6-\$8 million to support Running Specialty new store growth which excludes acquisition capital.

#### *Financing Activities*

Net cash used in financing activities was \$76.0 million, \$48.4 million, and \$24.1 million for fiscal 2013, 2012 and 2011, respectively. The \$27.6 million increase in cash used in financing activities is primarily due to a \$12.1 million decrease in proceeds received from the issuance of common stock, additional cash outlay of \$16.8 million for share repurchases and funding of a related-party note receivable of \$4.0 million (see Item 8 Financial Statements and Supplementary Data within footnote 2 of the notes to the consolidated financial statements), offset by proceeds from the sale of redeemable noncontrolling interest of \$10.0 million related to Running Specialty.

On November 30, 2012, the Company entered into an unsecured \$100 million Amended and Restated Revolving Credit Facility Credit Agreement (the Amended Credit Agreement) with certain Lenders, which expires on November 30, 2017. The Amended Credit Agreement provides that, under certain circumstances, the Company may increase the maximum amount of the credit facility in an aggregate principal amount not to exceed \$200 million. The Amended Credit Agreement will be used by the Company, among other things, to issue letters of credit, support working capital needs, fund capital expenditures and other general corporate purposes.

The Amended Credit Agreement replaced the Company's prior \$50 million Revolving Credit Facility (the Prior Credit Agreement). All commitments under the Prior Credit Agreement were terminated effective November 30, 2012. No advances were outstanding under the Prior Credit Agreement as of November 30, 2012.



## **Table of Contents**

### **Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)**

Approximately \$2.7 million in stand-by letters of credit was outstanding as of March 2, 2013 under the Amended Credit Agreement. No advances were outstanding under the Amended Credit Agreement as of March 2, 2013. Accordingly, availability under the Amended Credit Agreement was \$97.3 million as of March 2, 2013.

The Company's ability to borrow monies in the future under the Amended Credit Agreement is subject to certain conditions, including compliance with certain covenants and making certain representations and warranties. The Amended Credit Agreement contains restrictive covenants that limit, among other things, mergers and acquisitions. In addition, the Company must maintain a maximum leverage ratio (as defined in the Amended Credit Agreement) and minimum consolidated tangible net worth (as defined in the Amended Credit Agreement). The Company was in compliance with all such covenants as of March 2, 2013.

The Amended Credit Agreement pricing grid is adjusted quarterly and is based on the Company's leverage ratio (as defined in the Amended Credit Agreement). The minimum pricing is LIBOR plus 0.90% or Base Rate (as defined in the Amended Credit Agreement) and the maximum pricing is LIBOR plus 1.75% or Base Rate plus 0.75%. The Company is also subject to an unused commitment fee based on the Company's leverage ratio with minimum pricing of 0.10% and maximum pricing of 0.25%. In addition, the Company is subject to a letter of credit fee based on the Company's leverage ratio with minimum pricing of 0.40% and maximum pricing of 1.25%.

On July 21, 2011, the Company's Board of Directors authorized the repurchase of up to 5,000,000 shares of the Company's Class A common stock outstanding through December 31, 2014. On January 3, 2013, the Company's Board of Directors amended the Plan (the "Amended Plan") and authorized the repurchase of an additional 5,000,000 shares of the Company's Class A common stock, which authorization shall expire on December 31, 2017. The Company purchased 3,879,759 shares at an average price of \$19.90 per share for an aggregate amount of \$77.2 million in fiscal 2013. As of March 2, 2013, there were 4,920,341 shares remaining available to repurchase under the Amended Plan.

As of March 2, 2013, the Company holds as treasury shares 11,394,288 shares of its Class A Common Stock at an average price of \$17.35 per share for an aggregate purchase amount of \$197.7 million. The treasury shares may be issued upon the exercise of employee stock options, issuance of shares for the Employee Stock Purchase Plan, issuance of restricted stock, or for other corporate purposes. Further purchases will occur from time to time as market conditions warrant and as the Company deems appropriate when judged against other alternative uses of cash.

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)**

On January 16, 2013, the Company's Board of Directors increased its quarterly cash dividend to \$0.07 per share of Class A common stock. The Company declared dividends of \$12.5 million and \$11.0 million during fiscal 2013 and 2012, respectively. As of March 2, 2013 and March 3, 2012, dividends declared but not paid were \$3.4 million and \$3.1 million, respectively. Further declarations of dividends remain at the discretion of the Company's Board of Directors.

On July 20, 2012, all of the Company's shares of Class B common stock were converted on a one-for-one basis into an equal number of shares of Class A common stock in accordance with the terms of the Company's Restated Articles of Incorporation, and the Company eliminated its dual class stock structure. The Company did not receive any proceeds from the conversion of the Class B shares, and the Company will not receive any proceeds from the sale of any Class A shares issued as a result of the conversion. Per the Company's Restated Articles of Incorporation, as of the conversion, all Class B shares are no longer authorized.

Management believes that cash on hand of \$227.0 million as of March 2, 2013 and anticipated future operating cash flow will be sufficient to deliver on the Company's three strategic priorities to drive sales and earnings growth:

Continue to grow the core Finish Line business through improved store productivity, Branded shops within department stores, and continued elevated digital growth;

Continue to expand as a multi-divisional retailer, maximizing the growth opportunities in Running Specialty while exploring other opportunities as well; and

Continue to provide direct returns to shareholders through dividends and share repurchases.

**Contractual Obligations**

The following table summarizes the Company's long-term contractual obligations as of March 2, 2013 (in thousands):

	Total	Payments Due by Fiscal Year				Other
		Less than 1 Year	1-3 Years	3-5 Years	After 5 Years	
<b>Contractual Obligations</b>						
Operating Lease Obligations(1)	\$ 651,477	\$ 84,679	\$ 159,958	\$ 145,329	\$ 261,511	\$
Other Liabilities(2)(3)(4)	34,491	20,600				13,891
<b>Total Contractual Obligations</b>	<b>\$ 685,968</b>	<b>\$ 105,279</b>	<b>\$ 159,958</b>	<b>\$ 145,329</b>	<b>\$ 261,511</b>	<b>\$ 13,891</b>

- (1) Includes the guaranteed minimum license fee associated with the Branded shops within department stores and unbranded shops within department stores.
- (2) Other Liabilities includes future estimated payments associated with unrecognized tax benefits of \$8.1 million. The Company expects to make cash outlays in the future related to our unrecognized tax benefits. The Less than 1 Year category includes \$0.6 million of these tax items because it is reasonably possible that payment would be required in the next 12 months due to audit settlements or resolution of uncertainties. The remaining \$7.5 million is included in the Other category as the timing and amount of these payments is not known until the matters are resolved with relevant tax authorities. For further information related to unrecognized tax benefits, see Note 5, Income Taxes, to the Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data. Additionally, Other

## Edgar Filing: FINISH LINE INC /IN/ - Form 10-K

Liabilities includes future payments related to our non-qualified deferred compensation plan of \$4.9 million as the timing of these future payments is not known until an associate leaves the Company or otherwise requests an in-service distribution.

- (3) Other Liabilities includes a liability of \$1.5 million that is measured at fair value on a recurring basis related to a contingent consideration. The liability is included in the Other category and disclosed in Note 2, Acquisition, to the Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data.
- (4) Other Liabilities includes an estimated obligation to purchase approximately \$20.0 million of inventory related to the Macy's license agreement. All \$20.0 million is included within the Less than 1 Year category. The final amount paid for the inventory will be mutually agreed to by both parties.

The Company's contractual obligations primarily consist of operating leases and open purchase orders for merchandise inventory. In addition, in the ordinary course of business, the Company enters into arrangements with vendors to purchase merchandise up to 12 months in advance of expected delivery. These open purchase orders do not contain any significant termination payments or other penalties if cancelled. Total open purchase orders outstanding at March 2, 2013 are \$535.5 million, and have not been included in the table above.

### Off Balance Sheet Arrangements

The Company has no off balance sheet arrangements as that term is defined in Item 303(a)(4) of Regulation S-K.

### Item 7A Quantitative and Qualitative Disclosures About Market Risks

The Company is exposed to changes in interest rates primarily from its investments in marketable securities from time to time. The Company did not have any marketable securities as of March 2, 2013. The Company does not use interest rate derivative instruments to manage exposure to interest rate changes.

### Item 8 Financial Statements and Supplementary Data

**Table of Contents**

**Management's Report on Internal Control Over Financial Reporting**

The management of The Finish Line, Inc. (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended). The Company's internal control system was designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements.

Internal control over financial reporting is defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of March 2, 2013. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control Integrated Framework*. Based on management's assessment it believes that, as of March 2, 2013, the Company's internal control over financial reporting is effective based on those criteria.

The Company's independent registered public accounting firm, Ernst & Young LLP, has issued an attestation report on the Company's internal control over financial reporting. Ernst & Young LLP's report appears on the following page and expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of March 2, 2013.

---

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders of The Finish Line, Inc.

We have audited The Finish Line, Inc.'s internal control over financial reporting as of March 2, 2013 based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Finish Line, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, The Finish Line, Inc. maintained, in all material respects, effective internal control over financial reporting as of March 2, 2013 based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of The Finish Line, Inc. as of March 2, 2013 and March 3, 2012, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended March 2, 2013 of The Finish Line, Inc., and our report dated April 29, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Indianapolis, Indiana

April 29, 2013

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders of The Finish Line, Inc.

We have audited the accompanying consolidated balance sheets of The Finish Line, Inc. as of March 2, 2013 and March 3, 2012, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended March 2, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Finish Line, Inc. at March 2, 2013 and March 3, 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended March 2, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), The Finish Line, Inc.'s internal control over financial reporting as of March 2, 2013, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 29, 2013, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Indianapolis, Indiana

April 29, 2013



**Table of Contents**

**THE FINISH LINE, INC.**  
**CONSOLIDATED BALANCE SHEETS**

(in thousands)

	March 2, 2013	March 3, 2012
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 226,982	\$ 307,494
Accounts receivable, net	14,768	9,041
Merchandise inventories, net	243,770	220,405
Other	6,174	15,808
Total current assets	491,694	552,748
Property and Equipment		
Land	1,557	1,557
Building	42,460	41,745
Leasehold improvements	227,080	220,532
Furniture, fixtures and equipment	143,510	115,798
Construction in progress	36,339	6,987
	450,946	386,619
Less accumulated depreciation	270,345	259,622
	180,601	126,997
Deferred income taxes	12,018	16,888
Goodwill	13,888	8,503
Other intangible assets	550	550
Other assets, net	7,671	5,810
Total assets	\$ 706,422	\$ 711,496
<b>Liabilities and Shareholders Equity</b>		
Current Liabilities		
Accounts payable	\$ 75,641	\$ 67,246
Employee compensation	15,579	22,403
Accrued property and sales tax	9,245	10,312
Income taxes payable	5,211	13,348
Deferred income taxes	7,239	7,068
Other liabilities and accrued expenses	21,122	18,306
Total current liabilities	134,037	138,683
Commitments and contingencies		
Deferred credits from landlords	27,215	27,737
Other long-term liabilities	16,638	15,539
Redeemable noncontrolling Interest	3,669	
Shareholders Equity		
Preferred stock, \$.01 par value; 1,000 shares authorized; none issued		
Common stock, \$.01 par value		
Class A:		

# Edgar Filing: FINISH LINE INC /IN/ - Form 10-K

Shares authorized (2013 110,000; 2012 100,000)		
Shares issued (2013 59,587; 2012 58,839)		
Shares outstanding (2013 48,193; 2012 50,795)	596	588
Class B:		
Shares authorized (2013 0; 2012 10,000)		
Shares issued and outstanding (2013 0; 2012 571)		5
Additional paid-in capital	217,045	211,271
Retained earnings	504,883	445,884
Treasury stock (2013 11,394; 2012 8,044)	(197,661)	(128,211)
Total shareholders' equity	524,863	529,537
Total liabilities and shareholders' equity	\$ 706,422	\$ 711,496

See accompanying notes.

**Table of Contents****THE FINISH LINE, INC.****CONSOLIDATED STATEMENTS OF INCOME****(in thousands, except per share data)**

	<b>Year Ended</b>		
	<b>March 2, 2013</b>	<b>March 3, 2012</b>	<b>February 26, 2011</b>
Net sales	\$ 1,443,365	\$ 1,369,259	\$ 1,229,002
Cost of sales (including occupancy costs)	958,921	889,130	815,073
Gross profit	484,444	480,129	413,929
Selling, general and administrative expenses	365,883	343,629	302,718
Store closing costs	671	1,191	350
Impairment charges	5,593	974	1,228
Operating income	112,297	134,335	109,633
Interest income, net	198	447	508
Income from continuing operations before income taxes	112,495	134,782	110,141
Income tax expense	43,314	49,978	41,277
Income from continuing operations	69,181	84,804	68,864
Loss from discontinued operations, net of income tax benefit			(30)
Net income	69,181	84,804	68,834
Net loss attributable to redeemable noncontrolling interest	2,292		
Net income attributable to The Finish Line, Inc.	\$ 71,473	\$ 84,804	\$ 68,834
Basic earnings per share attributable to The Finish Line, Inc. shareholders	\$ 1.42	\$ 1.62	\$ 1.28
Diluted earnings per share attributable to The Finish Line, Inc. shareholders	\$ 1.40	\$ 1.59	\$ 1.26
Dividends declared per share	\$ 0.25	\$ 0.21	\$ 0.17

See accompanying notes

**Table of Contents****THE FINISH LINE, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

	Year Ended		
	March 2, 2013	March 3, 2012	February 26, 2011
<b>Operating activities</b>			
Net income	\$ 69,181	\$ 84,804	\$ 68,834
Adjustments to reconcile net income to net cash provided by operating activities:			
Impairment charges	5,593	974	1,228
Depreciation and amortization	31,182	27,027	26,959
Deferred income taxes	5,041	10,805	2,362
Loss on disposal of property and equipment	1,250	1,528	303
Share-based compensation	6,612	5,187	4,209
Excess tax benefits from share-based compensation	(2,963)	(5,951)	(1,297)
Changes in operating assets and liabilities			
Accounts receivable	(5,710)	1,511	(6,785)
Merchandise inventories	(22,403)	(23,880)	(2,611)
Other assets	9,342	(8,645)	8,416
Accounts payable	(2,471)	(7,512)	12,479
Employee compensation	(6,843)	3,887	2,258
Income taxes payable	(6,850)	8,971	(10,651)
Other liabilities and accrued expenses	914	2,950	8,223
Deferred credits from landlords	(382)	(6,916)	(5,353)
Net cash provided by operating activities	81,493	94,740	108,574
<b>Investing activities</b>			
Additions to property and equipment	(81,586)	(29,131)	(19,088)
Acquisitions, net of cash acquired	(3,526)	(8,495)	
Payments for intangible assets		(550)	
Proceeds from disposals of property and equipment	77	40	127
Payments for sale of discontinued operations			(667)
Cash paid for investment	(1,000)		
Net cash used in investing activities	(86,035)	(38,136)	(19,628)
<b>Financing activities</b>			
Dividends paid to shareholders	(12,147)	(10,512)	(8,598)
Proceeds from issuance of common stock	4,422	16,496	5,338
Excess tax benefits from share-based compensation	2,963	5,951	1,297
Purchase of treasury stock	(77,208)	(60,368)	(22,168)
Funding of related-party note receivable	(4,000)		
Proceeds from redeemable noncontrolling interest	10,000		
Net cash used in financing activities	(75,970)	(48,433)	(24,131)
Net (decrease) increase in cash and cash equivalents	(80,512)	8,171	64,815
Cash and cash equivalents at beginning of year	307,494	299,323	234,508
Cash and cash equivalents at end of year	\$ 226,982	\$ 307,494	\$ 299,323

## Edgar Filing: FINISH LINE INC /IN/ - Form 10-K

### Supplemental disclosure of noncash operating and investing activities:

Capital expenditures incurred but not yet paid	\$ 9,715	\$	\$
See accompanying notes			

**Table of Contents****THE FINISH LINE, INC.****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

(in thousands)

	Number of Shares			Amount		Additional	Retained	Treasury	Totals
	Class A	Class B	Treasury	Class A	Class B	Paid-in Capital	Earnings	Stock	
<b>Balance at February 27, 2010</b>	51,085	2,053	6,171	\$ 572	\$ 21	\$ 189,664	\$ 312,305	\$ (60,412)	\$ 442,150
Net income attributable to The Finish Line, Inc.							68,834		68,834
Cash dividends declared (\$0.17 per share)							(9,092)		(9,092)
Non-qualified Class A Common Stock options exercised and related tax benefits	542		(542)			4,011		2,250	6,261
Share-based compensation						4,209			4,209
Restricted shares vested, net of repurchase for taxes	223	43	(223)			(1,091)		783	(308)
Shares issued under employee stock purchase plan	28		(28)			243		116	359
Class B Common Stock conversion to Class A Common Stock	745	(745)		8	(8)				
Treasury Stock purchased	(1,586)		1,586					(22,168)	(22,168)
<b>Balance at February 26, 2011</b>	51,037	1,351	6,964	580	13	197,036	372,047	(79,431)	490,245
Net income attributable to The Finish Line, Inc.							84,804		84,804
Cash dividends declared (\$0.21 per share)							(10,967)		(10,967)
Non-qualified Class A Common Stock options exercised and related tax benefits	1,490		(1,490)			10,428		11,237	21,665
Share-based compensation						5,187			5,187
Restricted shares vested, net of repurchase for taxes	288	58	(288)			(1,508)		17	(1,491)
Shares issued under employee stock purchase plan	27		(27)			128		334	462
Class B Common Stock conversion to Class A Common Stock	838	(838)		8	(8)				
Treasury Stock purchased	(2,885)		2,885					(60,368)	(60,368)
<b>Balance at March 3, 2012</b>	50,795	571	8,044	588	5	211,271	445,884	(128,211)	529,537
Net income attributable to The Finish Line, Inc.							71,473		71,473
Cash dividends declared (\$0.25 per share)							(12,474)		(12,474)
Non-qualified Class A Common Stock options exercised and related tax benefits	544		(544)			(869)		8,456	7,587
Share-based compensation						6,612			6,612
Restricted shares vested, net of repurchase for taxes	42	87	48		2	(36)		(1,212)	(1,246)
Shares issued under employee stock purchase plan	33		(33)			67		514	581
Class B Common Stock conversion to Class A Common Stock	658	(658)		8	(7)				1
Treasury Stock purchased	(3,879)		3,879					(77,208)	(77,208)

Edgar Filing: FINISH LINE INC /IN/ - Form 10-K

<b>Balance at March 2, 2013</b>	48,193	11,394	\$ 596	\$	\$ 217,045	\$ 504,883	\$ (197,661)	\$ 524,863
---------------------------------	--------	--------	--------	----	------------	------------	--------------	------------

See accompanying notes

**Table of Contents****THE FINISH LINE, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****1. Significant Accounting Policies**

**Basis of Presentation.** The consolidated financial statements include the accounts of The Finish Line, Inc. and its subsidiaries (collectively, the Company). All intercompany transactions and balances have been eliminated. Throughout these notes to the consolidated financial statements, fiscal years ended March 2, 2013, March 3, 2012 and February 26, 2011 are referred to as 2013, 2012 and 2011, respectively.

The Company uses a Retail calendar. The Company's fiscal year ends on the Saturday closest to the last day of February and included 52 weeks in 2013, 53 weeks in 2012 and 52 weeks in 2011.

**Nature of Operations.** The Company is one of the largest mall-based specialty retailers in the United States, and operates two retail divisions under the Finish Line brand name (Finish Line) and Running Specialty Group (Running Specialty).

In 2013, the Company purchased approximately 88% of its merchandise from its five largest suppliers. The largest supplier, Nike, accounted for approximately 69%, 64% and 61% of merchandise purchases in 2013, 2012 and 2011, respectively.

**Use of Estimates.** Preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Segment Information.** The Company is a premium retailer of athletic shoes, apparel and accessories for men, women and kids, throughout the United States, through three operating segments, brick and mortar stores, digital (which includes internet, mobile and tablet), and Running Specialty. Given the similar economic characteristics of both brick and mortar stores and digital, which include a similar nature of products sold, type of customer, and method of distribution, and Running Specialty being immaterial, the Company's operating segments are aggregated into one reportable segment. The following table sets forth net sales of the Company by major category for each of the following years (in thousands):

Category	2013		2012		2011	
Footwear	\$ 1,237,685	86%	\$ 1,177,114	86%	\$ 1,056,586	86%
Softgoods	205,680	14%	192,145	14%	172,416	14%
Total	\$ 1,443,365	100%	\$ 1,369,259	100%	\$ 1,229,002	100%

**Cash and Cash Equivalents.** Cash and cash equivalents consist primarily of cash on hand and all highly liquid instruments purchased with a maturity of three months or less at the date of purchase. At March 2, 2013, substantially all of the Company's cash was invested in deposit accounts at banks. The majority of payments due from banks for credit card transactions process within 24 to 48 hours and are accordingly classified as cash and cash equivalents.

**Merchandise Inventories.** Merchandise inventories are valued at the lower of cost or market using a weighted-average cost method, which approximates the first-in, first-out method. Merchandise inventories are recorded net of markdowns and shrinkage. Vendor rebates are applied as a reduction to the cost of merchandise inventories.

**Property and Equipment.** Property and equipment are stated at cost and depreciated on a straight-line basis over the estimated useful lives of the assets: 30 years for buildings and three to 10 years for furniture, fixtures and equipment. Improvements to leased premises are amortized on a straight-line basis over the shorter of the estimated useful life of the asset, generally 10 years, or the remaining lease term. Significant additions and improvements that extend the useful life of an asset are capitalized. Maintenance and repairs are charged to current operations as incurred. Depreciation expense for 2013, 2012 and 2011 was \$31.3 million, \$27.1 million and \$26.9 million, respectively.





**Table of Contents**

**THE FINISH LINE, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Impairment of Property and Equipment.** In accordance with Accounting Standards Codification ASC 360, the Company reviews property and equipment for impairment related to all stores open for at least two years with negative contribution and cash flows as well as stores opened less than two years whenever other events or changes in circumstances indicate the store's assets may not be recoverable. Recoverability of assets to be held and used is determined by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment recognized is measured by comparing projected individual store discounted cash flows to the asset carrying values.

**Goodwill and Other Intangible Assets.** The Company accounts for goodwill and other intangible assets in accordance with ASC 350 Goodwill and Other Intangible Assets (ASC 350). ASC 350 requires that goodwill and intangible assets with indefinite lives not be amortized, but reviewed for impairment if impairment indicators arise and, at a minimum, annually. Intangible assets that are deemed to have finite lives are amortized over their estimated useful lives.

The goodwill impairment test is a two-step test. In the first step, the Company compares the fair value of each reporting unit with goodwill to its carrying value. The Company determines the fair value of its reporting units with goodwill using a combination of a discounted cash flow and a market value approach. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that reporting unit, goodwill is not impaired and the Company is not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then the Company must perform the second step in order to determine the implied fair value of the reporting unit's goodwill and compare it to the carrying value of the reporting unit's goodwill. The activities in the second step include valuing the tangible and intangible assets and liabilities. If the implied fair value of goodwill is less than the carrying value, an impairment loss is recognized for the difference.

Intangible assets that have been determined to have indefinite lives relate to a domain name and are also not subject to amortization and are reviewed at least annually for potential impairment, as described above. The fair value of the Company's indefinite lived intangible asset is estimated and compared to its carrying value. The Company recognizes an impairment charge when the estimated fair value of the intangible asset is less than the carrying value.

**Deferred Credits From Landlords.** Deferred credits from landlords consist of step rent and allowances from landlords related to the Company's retail stores. Step rent represents the difference between actual operating lease payments due and straight-line rent expense, which is recorded by the Company over the term of the lease, including the build-out period. This amount is generally recorded as a deferred credit in the early years of the lease, when cash payments are generally lower than the straight-line rent expense, and reduced in the later years of the lease, when payments begin to exceed the straight-line expense. Landlord allowances are generally comprised of amounts promised to the Company by landlords in the form of cash or rent abatements. These allowances are part of the negotiated terms of the lease. In situations where cash is to be received, the Company records a receivable for the full amount of the allowance when certain performance criteria articulated in the lease are met and a liability is concurrently established. This deferred credit from landlords is amortized into income (through lower rent expense) over the term (including the pre-opening build-out period) of the applicable lease and the receivable is reduced as amounts are received from the landlord.

**Table of Contents****THE FINISH LINE, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Revenue Recognition.** Revenues are recognized at the time the customer receives the merchandise, which for Digital revenues reflects an estimate of shipments that have not been received by the customer based on shipping terms and estimated delivery times. Sales include merchandise, net of returns and excluding all taxes.

The Company sells gift cards with no expiration dates to customers and does not charge administrative fees on unused gift cards. The Company recognizes revenue from gift cards when they are redeemed by the customer. In addition, the Company recognizes revenue on unredeemed gift cards when the likelihood of the gift card being redeemed is remote and there is no legal obligation to remit the value of unredeemed gift cards to the relevant jurisdictions. The Company determined the gift card breakage rate based on historical redemption patterns. During the 4<sup>th</sup> quarter of 2013, 2012 and 2011 the Company recorded \$0.4 million, \$0.3 million and \$0.4 million, respectively, of revenue related to gift card breakage. Gift card breakage is included in Net Sales in the Company's Consolidated Statements of Income, however is not included in the comparable store net sales.

**Costs of Sales.** Costs of sales include the cost associated with acquiring merchandise from vendors, occupancy costs, license fees, provision for inventory shortages, and credits and allowances from merchandise vendors. Cash consideration received from merchandise vendors after the related merchandise has been sold is recorded as an offset to cost of sales. For cash consideration received on merchandise still in inventory, the allowance is recorded as a reduction to the cost of on-hand inventory and recorded as a reduction of cost of sales at the time of sale.

Because the Company does not include the costs associated with operating its distribution facility and freight within cost of sales, the Company's gross profit may not be comparable to those of other retailers that may include all costs related to their distribution facilities in costs of sales and in the calculation of gross profit.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses include store payroll and related payroll benefits, store operating expenses, advertising, cooperative advertising allowances, shipping expense associated with shipping product to customers, costs associated with operating our distribution facility and freight, including moving merchandise from our distribution center to stores, share-based compensation and other corporate related expenses.

**Advertising.** The Company expenses the cost of advertising as incurred, net of reimbursements for cooperative advertising. The reimbursements for cooperative advertising are agreed upon with vendors and are recorded in the same period as the associated expenses are incurred. Advertising expense was as follows (in thousands):

	2013	2012	2011
Advertising expense	\$ 39,948	\$ 35,827	\$ 25,099
Cooperative advertising credits	(9,295)	(7,839)	(5,530)
Net advertising expense	\$ 30,653	\$ 27,988	\$ 19,569

**Store Pre-opening Costs.** Store pre-opening costs and other non-capitalized expenditures, including payroll, training costs and straight-line rent expense, are expensed as incurred.

**Store Closing Costs.** Store closing costs represent the non-cash write-off of any fixtures and equipment upon a store closing. In the event a store is closed before its lease has expired, any estimated post-closing lease obligations, less sublease rental income, is provided for when the leased space is no longer in use. The Company closed 21, 31 and 13 stores in 2013, 2012 and 2011, respectively.

**Table of Contents**

**THE FINISH LINE, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Income Taxes.** The Company accounts for income taxes under the asset and liability method. Under this method, the amount of taxes currently payable or refundable are accrued and deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets are also recognized for realizable loss and tax credit carryforwards. The deferred tax assets may be reduced by a valuation allowance, which is established when it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. In addition, management is required to evaluate all available evidence including estimating future taxable income by taxing jurisdictions, the future reversal of temporary differences, tax planning strategies, and recent results of operations when making its judgment to determine whether or not to record a valuation allowance for a portion or all of its deferred tax asset. Deferred tax assets and liabilities are measured using enacted income tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in income tax rates is recognized in the Company's Consolidated Statements of Income in the period that includes the enactment date.

The Company calculates an annual effective income tax rate based on annual income, permanent differences between book and tax income and statutory income tax rates. The Company adjusts the annual effective income tax rate as additional information on outcomes or events becomes available. The Company's effective income tax rate is affected by items including changes in tax law, the tax jurisdiction of new stores or business ventures, the level of earnings or losses, the results of tax audits and the level of investment income.

The Company's income tax returns, like those of most companies, are periodically audited by tax authorities. These audits include questions regarding the Company's tax filing positions, including the timing and amount of deductions and the allocation of income among various tax jurisdictions. At any one time, multiple tax years are subject to audit by the various tax authorities. The Company accounts for uncertainty in income taxes using a two-step approach for evaluating income tax positions. The first step requires the Company to conclude that a tax position, based solely on its technical merits, is more likely than not to be sustained upon examination by a tax authority. The second step applies if the Company has concluded that the tax position is more likely than not to be sustained upon examination and requires the Company to measure the largest amount of benefit, determined on a cumulative probability basis, which it is more likely than not to be realized upon ultimate settlement. The Company adjusts its accrual for uncertain tax positions and income tax provision in the period in which matters are effectively settled with tax authorities at amounts different from its established accrual, the statute of limitations expires for the relevant taxing authority to examine the tax position or when more information becomes available. The Company includes its accrual for uncertain tax positions, including accrued penalties and interest, in Other long-term liabilities on the Consolidated Balance Sheets unless the liability is expected to be paid within one year. Changes to the accrual for uncertain tax positions, including accrued penalties and interest, are included in Income tax expense in the Consolidated Statements of Income.

**Earnings Per Share.** Basic earnings per share is calculated by dividing net income associated with common shareholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per share assumes the issuance of additional shares of common stock by the Company upon exercise of all outstanding stock options and contingently issuable securities if the effect is dilutive, in accordance with the treasury stock method discussed in ASC 260-10, Earnings Per Share.

ASC 260-10 requires the inclusion of restricted stock as participating securities, since they have the right to share in dividends, if declared, equally with common shareholders. During periods of net income, participating securities are allocated a proportional share of net income determined by dividing total weighted average

## Table of Contents

### THE FINISH LINE, INC.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

participating securities by the sum of total weighted average common shares and participating securities ( the two-class method ). During periods of net loss, no effect is given to participating securities since they do not share in the losses of the Company. Participating securities have the effect of diluting both basic and diluted earnings per share during periods of net income. All per share amounts, unless otherwise noted, are presented on a diluted basis.

**Financial Instruments.** Financial instruments consist of cash and cash equivalents, accounts receivable and accounts payable. The carrying value of cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of the short maturity of these instruments.

As of March 2, 2013 and March 3, 2012, the Company had not invested in, nor did it have, any derivative financial instruments.

**Share-Based Compensation.** The Company accounts for share-based compensation by the measuring and recognizing of compensation expense for all share-based awards made to employees and directors based on estimated fair values on the grant date. The Company is required to estimate the fair value of share-based awards on the date of grant and recognize as expense the value of the portion of the award that is ultimately expected to vest over the requisite service period.

Share-based compensation expense recognized in the Consolidated Statements of Income is based on awards ultimately expected to vest, and accordingly has been reduced for estimated forfeitures. Forfeitures are required to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company applies an estimated forfeiture rate based on historical data to determine the amount of compensation expense.

Compensation expense for stock options is recognized, net of forfeitures, over the requisite service period on a straight-line basis, using a single option approach (each option is valued as one grant, irrespective of the number of vesting tranches). Restricted stock expense is recognized, net of forfeitures, on a straight-line basis over the requisite service period.

**Fair Value Measurements.** Fair value measurements are determined based upon the exit price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants exclusive of any transaction costs. The Company utilizes a fair value hierarchy based upon the observability of inputs used in valuation techniques as follows:

Level 1: Observable inputs such as quoted prices in active markets;

Level 2: Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and

Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions. The Company has cash equivalents in short-term money market funds. The primary objective of our short-term investment activity is to preserve our capital for the purpose of funding operations and we do not enter into short-term investments for trading or speculative purposes. However, the Company does from time to time evaluate other investment strategies for its cash. The fair values are based on unadjusted quoted market prices for the funds in active markets with sufficient volume and frequency (Level 1). Also included in Level 1 assets are mutual fund investments under the non-qualified deferred compensation plan which was \$4.9 million and \$3.8 million at March 2, 2013 and March 3, 2012, respectively. The Company estimates the fair value of these investments on a recurring basis using market prices that are readily available.

The Company has a liability that is measured at fair value on a recurring basis related to the contingent consideration disclosed in Note 2 for \$1.5 million. The liability is adjusted to fair value each reporting period. The categorization of the framework used to price the liability is considered a Level 3, due to the subjective nature of the unobservable inputs used to determine the fair value.

There were no transfers into or out of Level 1, Level 2 or Level 3 assets for any of the periods presented, except for the contingent consideration which was recognized during 2013.



**Table of Contents****THE FINISH LINE, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Recent Accounting Pronouncements.** In July 2012, the Financial Accounting Standards Board issued Accounting Standards Update ( ASU ) 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment*. This update amended the procedures for testing the impairment of indefinite-lived intangible assets by permitting an entity to first assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible assets are impaired. An entity's assessment of the totality of events and circumstances and their impact on the entity's indefinite-lived intangible assets will then be used as a basis for determining whether it is necessary to perform the quantitative impairment test as described in ASC 350-30, *Intangibles Goodwill and Other General Intangibles Other than Goodwill*. This ASU became effective for the Company on March 3, 2013. The adoption of this guidance did not have a significant effect on the Company's consolidated financial statements.

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

**Reclassification.** Certain amounts in the 2012 financial statements have been reclassified to conform to the 2013 presentation.

**2. Acquisitions**

On August 31, 2011, the Company acquired substantially all the assets and assumed certain liabilities of the Running Company for a purchase price of \$8.5 million which was funded through the Company's existing cash. As of the acquisition date, the Running Company operated 18 specialty running shops in Connecticut, District of Columbia, Florida, Maryland, Massachusetts, New Jersey, New York and Texas.

The Company allocated the purchase price based upon the tangible and intangible assets acquired, net of liabilities. The allocation of the purchase price is detailed below (in thousands):

	<b>Allocation of Purchase Price</b>
Goodwill	\$ 8,503
Tangible assets, net of liabilities	1,675
Net unfavorable lease obligation	(1,678)
 Total purchase price	 \$ 8,500

The Company determined the estimated fair values based on discounted cash flow analyses and estimates made by management. Goodwill from the acquisition is deductible for tax purposes.

On March 29, 2012, GCPI SR LLC ( GCPI ) made a \$10.0 million strategic investment in Running Specialty. The Company remained majority owner with a 51% ownership interest. GCPI has the right to put and the Company has the right to call after March 4, 2017, under certain circumstances, GCPI's 49% interest in Running Specialty at an agreed upon price approximating fair value. Also, as part of the transaction, GCPI issued to the Company a \$4.0 million related-party promissory note which is collateralized with GCPI's interest in Running Specialty and is due March 31, 2021 or earlier depending on certain stipulated events in the control of GCPI. The promissory note calls for interest payments based in part on a fixed rate and in part on participation in the value of other investments held by GCPI. The balance of the promissory note and related accrued interest is \$4.0 million at March 2, 2013 and has been netted against the redeemable noncontrolling interest.

The redeemable noncontrolling interest is classified as mezzanine equity and measured at the greater of estimated fair value at the end of each reporting period or the historical cost basis of the redeemable noncontrolling interest, net of the \$4.0 million promissory note and related accrued interest and adjusted for cumulative earnings or loss allocations. The resulting increases or decreases in the estimated redemption amount are

## Edgar Filing: FINISH LINE INC /IN/ - Form 10-K

affected by corresponding charges against retained earnings, or in the absence of retained earnings, additional paid in capital. As of March 2, 2013 the redeemable noncontrolling interest is measured at historical cost basis. The loss allocations for 2013 were \$2.3 million.

On October 6, 2012, Running Specialty acquired substantially all the assets and assumed certain liabilities of Run On, Inc., for a purchase price of \$2.3 million, net of cash acquired, which was funded through the Company's existing cash. As of the acquisition date, Run On, Inc. operated five specialty running shops in Texas. In addition to the cash consideration, the transaction includes contingent consideration with an estimated fair value of \$1.5 million which is included within other long-term liabilities. The Company determined the estimated fair values based on discounted cash flow analyses and estimates made by management.

On December 31, 2012, Running Specialty acquired substantially all the assets and assumed certain liabilities of The Roadrunner of Richmond, Inc., which operated one specialty running shop in Virginia.



**Table of Contents****THE FINISH LINE, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company allocated the purchase price of each acquisition based upon the tangible and intangible assets acquired, net of liabilities. The allocation of the purchase price for Run On, Inc. and The Roadrunner of Richmond, Inc. combined is detailed below (in thousands):

	<b>Allocation of Purchase Price</b>
Goodwill	\$ 5,385
Tangible assets, net of liabilities	299
Contingent consideration	(1,453)
 Total purchase price	 \$ 4,231

A reconciliation of goodwill is detailed below (in thousands):

	<b>2013</b>	<b>2012</b>
Beginning balance:	\$ 8,503	\$ 8,503
Acquisitions	5,385	8,503
Accumulated impairment losses		
 Ending balance:	 \$ 13,888	 \$ 8,503

**3. Debt Agreement**

On November 30, 2012, the Company entered into an unsecured \$100 million Amended and Restated Revolving Credit Facility Credit Agreement (the "Amended Credit Agreement") with certain Lenders, which expires on November 30, 2017. The Amended Credit Agreement provides that, under certain circumstances, the Company may increase the maximum amount of the credit facility in an aggregate principal amount not to exceed \$200 million. The Amended Credit Agreement will be used by the Company, among other things, to issue letters of credit, support working capital needs, fund capital expenditures and other general corporate purposes.

The Amended Credit Agreement and related loan documents replace the Company's prior \$50 million Revolving Credit Facility (the "Prior Credit Agreement"). All commitments under the Prior Credit Agreement were terminated effective November 30, 2012. No advances were outstanding under the Prior Credit Agreement as of November 30, 2012.

Approximately \$2.7 million in stand-by letters of credit was outstanding as of March 2, 2013 under the Amended Credit Agreement. No advances were outstanding under the Amended Credit Agreement as of March 2, 2013. Accordingly, availability under the Amended Credit Agreement was \$97.3 million as of March 2, 2013.

The Company's ability to borrow monies in the future under the Amended Credit Agreement is subject to certain conditions, including compliance with certain covenants and making certain representations and warranties. The Amended Credit Agreement contains restrictive covenants that limit, among other things, mergers and acquisitions. In addition, the Company must maintain a maximum leverage ratio (as defined in the Amended Credit Agreement) and minimum consolidated tangible net worth (as defined in the Amended Credit Agreement). The Company was in compliance with all such covenants as of March 2, 2013.

## Edgar Filing: FINISH LINE INC /IN/ - Form 10-K

The Amended Credit Agreement pricing grid is adjusted quarterly and is based on the Company's leverage ratio (as defined in the Amended Credit Agreement). The minimum pricing is LIBOR plus 0.90% or Base Rate (as defined in the Amended Credit Agreement) and the maximum pricing is LIBOR plus 1.75% or Base Rate plus 0.75%. The Company is subject to an unused commitment fee based on the Company's leverage ratio with minimum pricing of 0.10% and maximum pricing of 0.25%. In addition, the Company is subject to a letter of credit fee based on the Company's leverage ratio with minimum pricing of 0.40% and maximum pricing of 1.25%.

**Table of Contents****THE FINISH LINE, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****4. Leases**

The Company leases retail stores under non-cancelable operating leases, which generally have lease terms ranging from five to ten years. Most of these lease arrangements do not provide for renewal periods. Many leases provide for contingent rents, which are determined as a percentage of gross sales in excess of specified levels. The Company records a contingent rent liability in Other liabilities and accrued expenses on the Consolidated Balance Sheets and the corresponding rent expense when specified levels have been achieved or when management determines that achieving the specified levels during the fiscal year is probable. In addition to rent payments, these leases generally require additional payments covering real estate taxes, insurance, maintenance and other costs. These additional payments are excluded from the table below. The components of rent expense incurred under these leases are as follows (in thousands):

	2013	2012	2011
Base rent, net of landlord deferred credits	\$ 89,018	\$ 82,177	\$ 80,951
Step rent	1,340	(1,883)	(1,192)
Contingent rent	6,482	4,870	2,849
Rent expense	\$ 96,840	\$ 85,164	\$ 82,608

A schedule of future base rent payments by fiscal year with initial or remaining non-cancelable terms of one year or more is as follows (in thousands):

2014	\$ 84,679
2015	73,254
2016	86,704
2017	75,866
2018	69,463
Thereafter	261,511
	\$ 651,477

This schedule of future base rent payments includes lease commitments for 12 new stores and four remodeled stores that were not open as of March 2, 2013. The lease commitments also include the guaranteed minimum license fee associated with our Branded shops within department stores and unbranded shops within department stores.

**Table of Contents****THE FINISH LINE, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. Income Taxes**

The components of income taxes are as follows (in thousands):

	2013	2012	2011
Currently payable:			
Federal	\$ 33,703	\$ 36,211	\$ 35,047
State	4,570	2,962	3,746
	38,273	39,173	38,793
Deferred:			
Federal	4,359	9,357	2,294
State	682	1,448	190
	5,041	10,805	2,484
Total income tax expense from continuing operations	\$ 43,314	\$ 49,978	\$ 41,277

Deferred income taxes reflect the net tax effects of temporary differences between the amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows (in thousands):

	2013	2012
Deferred tax assets:		
Deferred credits from landlords	\$ 10,591	\$ 11,314
Share-based compensation	4,681	3,950
Compensation accrual	3,297	3,745
Deferred Compensation	1,920	1,486
Other	4,501	4,112
Total deferred tax assets	24,990	24,607
Deferred tax liabilities:		
Property and equipment	(10,137)	(4,990)
Inventories	(9,729)	(9,245)
Other	(345)	(552)
Total deferred tax liabilities	(20,211)	(14,787)
Net deferred tax asset	\$ 4,779	\$ 9,820

The effective income tax rate varies from the statutory federal income tax rate for 2013, 2012 and 2011 due to the following:

2013 2012 2011

# Edgar Filing: FINISH LINE INC /IN/ - Form 10-K

Tax at statutory federal income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	2.9	3.0	2.7
Tax contingencies	(0.2)	(0.9)	(0.3)
Tax effect related to Running Specialty partnership interest	0.7		
Other	0.1		0.1
	38.5%	37.1%	37.5%

**Table of Contents**

**THE FINISH LINE, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

As of March 2, 2013, the Company had approximately \$2.5 million of net operating loss carryforwards for state tax purposes of which \$0.7 million of net operating loss carryforwards related to excess stock-based compensation deductions and when realized, will be credited to shareholders' equity. If not used, these carryforwards will expire between 2013 and 2029.

Payments of income taxes for 2013, 2012 and 2011 equaled \$45.0 million, \$28.7 million and \$42.4 million, respectively.

The Company is subject to U.S. federal income tax as well as income tax by multiple state jurisdictions. The Company has substantially concluded all U.S. federal income tax matters through fiscal 2009 and all state and local income tax matters through fiscal 2001. The Company may resolve some or all of the issues related to tax matters and make payments to settle agreed upon liabilities.

**Uncertain Tax Positions**

As of March 2, 2013 and March 3, 2012, the Company had \$8.1 million and \$8.9 million of unrecognized tax benefits respectively, \$3.0 million and \$3.2 million respectively, of which, if recognized, would affect the effective income tax rate. Of the total unrecognized tax benefits as of March 2, 2013, it is reasonably possible that the total unrecognized tax benefits could decrease by up to \$0.8 million during the next twelve months due to audit settlements, expiration of statute of limitations or other resolution of uncertainties. Due to the uncertain and complex application of tax regulations, it is possible that the ultimate resolution of audits may result in liabilities that could be different from this estimate. In such case, the Company will record additional tax expense or tax benefit in the tax provision or reclassify amounts on the Consolidated Balance Sheets in the period in which such matter is effectively settled with the tax authority.

The Company recognizes interest and penalty expense, as well as reversal of expense, related to unrecognized tax benefits as components of income tax expense. In 2013, 2012 and 2011, \$(0.5) million, \$(0.6) million and \$0.1 million, respectively, of interest and penalties were included in Income tax expense on the Consolidated Statements of Income. The Company has accrued \$1.8 million and \$2.3 million for the payment of interest and penalties as of March 2, 2013 and March 3, 2012, respectively.

**Table of Contents****THE FINISH LINE, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table summarizes the activity related to its unrecognized tax benefits for U.S. federal and state tax jurisdictions and excludes accrued interest and penalties (in thousands):

	2013	2012	2011
<b>Unrecognized Tax Benefits at Beginning of Year</b>	<b>\$ 6,548</b>	<b>\$ 7,530</b>	<b>\$ 9,255</b>
Increases in Tax Positions for Prior Years	275	193	26
Decreases in Tax Positions for Prior Years	(29)	(1,057)	(1,166)
Increases in Unrecognized Tax Benefits as a Result of Current Year Activity	13	50	106
Decreases to Unrecognized Tax Benefits Relating to Settlements with Taxing Authorities		(5)	(113)
Decreases to Unrecognized Tax Benefits as a Result of a Lapse of the Applicable Statute of Limitations	(539)	(163)	(578)
<b>Unrecognized Tax Benefits at End of Year</b>	<b>\$ 6,268</b>	<b>\$ 6,548</b>	<b>\$ 7,530</b>

**6. Retirement Plan**

The Company sponsors a defined contribution profit sharing plan, which covers substantially all employees who have completed one year of service and meet other eligibility criteria. Contributions to this plan are discretionary and are allocated to employees as a percentage of each covered employee's wages. The plan also has a 401(k) feature whereby the Company matches employee contributions to the plan. The Company matches 100 percent of employee contributions to the plan on the first three percent of an employee's wages and then 50 percent of employee contributions to the plan over three percent up to five percent of their wages (maximum of four percent). Employee contributions and Company matching contributions vest immediately. The Company's total expense for the plan in 2013, 2012 and 2011 amounted to \$1.2 million, \$1.3 million and \$0.8 million, respectively.

The Company has a non-qualified deferred compensation plan for highly compensated employees whose contributions are limited under the qualified defined contribution plan. Amounts contributed and deferred under the deferred compensation plans are credited or charged with the performance of investment options offered under the plans and elected by the participants. In the event of bankruptcy, the assets of these plans are available to satisfy the claims of general creditors. The liability for compensation deferred under the Company's plan was \$4.9 million and \$3.8 million at March 2, 2013 and March 3, 2012, respectively, and is included in Other long-term liabilities on the Consolidated Balance Sheets. Total expense recorded under this plan was \$0 in 2013 and 2012 and \$0.2 million in 2011.

**7. Stock Plans****General**

In July 2009, the Company's shareholders approved and adopted The Finish Line, Inc. 2009 Incentive Plan (the 2009 Incentive Plan), previously approved by the Company's Board of Directors. The Company's Board of Directors has reserved 6,500,000 shares of Common Stock for issuance upon exercise of options or other awards under the option plan. The number of shares reserved for issuance of all awards other than options and stock appreciation rights, is limited to 2,500,000. Upon approval of the 2009 Incentive Plan, the 2002 Stock Incentive Plan of The Finish Line, Inc. (the 2002 Incentive Plan) is limited in future grants to awards from shares returned to the 2002 Incentive Plan by forfeiture after July 23, 2009.





**Table of Contents****THE FINISH LINE, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Total share-based compensation expense in 2013, 2012 and 2011 was \$6.6 million, \$5.2 million and \$4.2 million, respectively.

**Stock Option Activity**

Stock options have been granted to directors, officers and other key employees. Generally, options outstanding under the plans are exercisable at a price equal to the fair market value on the date of grant, vest over four years and expire ten years after the date of grant. The estimated weighted-average fair value of the individual options granted during 2013, 2012 and 2011 was \$9.56, \$8.98 and \$6.00, respectively on the date of the grant. The fair values for all years were determined using a Black-Scholes option-pricing model with the following weighted average assumptions:

	2013	2012	2011
Dividend yield	1.05%	1.12%	1.02%
Volatility	58.3%	57.8%	57.6%
Risk-free interest rate	0.95%	1.98%	2.18%
Expected life	4.9 years	4.8 years	4.6 years

The expected volatility assumption is based on the Company's analysis of historical volatility. The risk-free interest rate assumption is based upon the average daily closing rates during the period for U.S. treasury notes that have a life, which approximates the expected life of the option. The dividend yield assumption is based on the Company's history and expectation of dividend payouts. The expected life of employee stock options represents the weighted-average period the stock options are expected to remain outstanding based on historical exercise experience.

A reconciliation of the Company's stock option activity and related information is as follows:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at March 3, 2012	2,340,649	\$ 12.00		
Granted	518,108	20.96		
Exercised	(543,521)	9.22		\$ 6,354,000
Forfeited	(119,059)	16.92		
Outstanding at March 2, 2013	2,196,177	\$ 14.54	6.6	\$ 9,965,000
Exercisable at March 2, 2013	846,862	\$ 11.66	4.6	\$ 5,605,000

As of March 2, 2013, there was \$6.0 million of total unrecognized compensation cost, net of estimated forfeitures, related to nonvested options. That cost is expected to be recognized over a weighted average period of 1.8 years.

Intrinsic value for stock options is the difference between the current market value of the Company's stock and the option strike price. The total intrinsic value of options exercised during 2013, 2012 and 2011 was \$6.4 million, \$14.7 million and \$4.2 million, respectively.

**Table of Contents****THE FINISH LINE, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table summarizes information concerning outstanding and exercisable options at March 2, 2013:

Range of Exercise Prices	Weighted-Average Remaining			Weighted-Average	
	Number Outstanding	Contractual Life	Exercise Price	Number Exercisable	Exercise Price
\$1-\$ 5	115,500	5.0	\$ 4.51	115,500	\$ 4.51
\$5-\$10	487,500	6.0	6.36	226,790	6.42
\$10-\$15	436,150	6.1	13.09	205,673	13.03
\$15-\$25	1,157,027	7.2	19.53	298,899	17.44
	2,196,177	6.6	\$ 14.54	846,862	\$ 11.66

The Company recorded compensation expense related to stock options of \$2.7 million, \$2.1 million and \$1.8 million in 2013, 2012 and 2011, respectively.

***Restricted Stock Activity***

The Company has granted shares of the Company's stock to non-employee Directors, officers and other key employees that are subject to restrictions. The restricted stock granted to employees under the 2002 and 2009 Incentive Plans either vest upon the achievement of specified levels of net income growth over a three-year period or were granted such that they cliff-vest after a three-year period. For performance-based awards, should the net income criteria not be met over the three-year period, the shares will be forfeited. All restricted stock awards issued to non-employee Directors cliff-vest after a one-year period from grant date. The Company recorded compensation expense related to restricted stock of \$3.8 million, \$3.0 million and \$2.4 million in 2013, 2012 and 2011, respectively.

A reconciliation of the Company's restricted stock activity and related information is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at March 3, 2012	560,160	\$ 14.90
Granted	418,825	21.00
Vested	(179,623)	11.06
Forfeited	(42,202)	19.18
Unvested at March 2, 2013	757,160	\$ 18.95

As of March 2, 2013, there was \$7.1 million of total unrecognized compensation cost, net of estimated forfeitures, related to nonvested restricted stock. That cost is expected to be recognized over a weighted average period of 2.5 years. The total fair value of awards for which restrictions lapsed (vested) during 2013 was \$2.0 million.

***Employee Stock Purchase Plan***

The Company has an Employee Stock Purchase Plan ( ESPP ). Under the ESPP, participating employees are able to contribute up to 10 percent of their annual compensation to acquire shares of common stock at 85% of the market price on a specified date each offering period. As of

## Edgar Filing: FINISH LINE INC /IN/ - Form 10-K

March 2, 2013, 2,400,000 shares of common stock were authorized for purchase under the ESPP, of which 33,000, 27,000 and 28,000 shares were purchased during 2013, 2012 and 2011, respectively. The Company recognizes compensation expense based on the 15% discount at purchase. The Company recorded compensation expense related to the ESPP of \$0.1 million in 2013, 2012 and 2011.

**Table of Contents****THE FINISH LINE, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****8. Earnings Per Share**

Basic earnings per share attributable to The Finish Line, Inc. is calculated by dividing income attributable to The Finish Line, Inc. associated with common shareholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per share attributable to The Finish Line, Inc. assumes the issuance of additional shares of common stock by the Company upon exercise of all outstanding stock options and contingently issuable securities if the effect is dilutive, in accordance with the treasury stock method or two class method (whichever is more dilutive) discussed in ASC 260-10, Earnings Per Share .

ASC 260-10 requires the inclusion of restricted stock as participating securities, since they have the right to share in dividends, if declared, equally with common shareholders. During periods of net income, participating securities are allocated a proportional share of net income attributable to The Finish Line, Inc. determined by dividing total weighted average participating securities by the sum of total weighted average common shares and participating securities ( the two-class method ). During periods of net loss, no effect is given to participating securities since they do not share in the losses of the Company. Participating securities have the effect of diluting both basic and diluted earnings per share during periods of net income.

The following is a reconciliation of the numerators and denominators used in computing earnings per share (in thousands, except per share amounts):

	2013	2012	2011
Net income attributable to The Finish Line, Inc.	\$ 71,473	\$ 84,804	\$ 68,834
Net income attributable to The Finish Line, Inc. attributable to participating securities	653	691	981
Net income attributable to The Finish Line, Inc. available to common shareholders	\$ 70,820	\$ 84,113	\$ 67,853
Basic earnings per share attributable to The Finish Line, Inc. shareholders:			
Weighted-average number of common shares outstanding	49,824	52,020	52,979
Basic earnings per share attributable to The Finish Line, Inc. shareholders	\$ 1.42	\$ 1.62	\$ 1.28
Diluted earnings per share attributable to The Finish Line, Inc. shareholders:			
Weighted-average number of common shares outstanding	49,824	52,020	52,979
Dilutive effect of potential common shares(a)	667	798	796
Diluted weighted-average number of common shares outstanding	50,491	52,818	53,775
Diluted earnings per share attributable to The Finish Line, Inc. shareholders	\$ 1.40	\$ 1.59	\$ 1.26

- (a) The computation of diluted earnings per share attributable to The Finish Line, Inc. shareholders excludes options to purchase approximately 0.9 million, 0.4 million and 1.2 million shares of common stock in 2013, 2012 and 2011, respectively, because the impact of such options would have been antidilutive.

**Table of Contents**

**THE FINISH LINE, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**9. Common Stock**

On July 21, 2011, the Company's Board of Directors authorized a stock repurchase program (the "Plan") to repurchase up to 5,000,000 shares of the Company's Class A common stock outstanding through December 31, 2014. On January 3, 2013, the Company's Board of Directors amended the Plan (the "Amended Plan") and authorized the repurchase of an additional 5,000,000 shares of the Company's Class A common stock, which authorization shall expire on December 31, 2017. The Company purchased 3,879,759 shares at an average price of \$19.90 per share for an aggregate amount of \$77.2 million in 2013. The remaining shares available for repurchase under the Amended Plan are 4,920,341 shares as of March 2, 2013.

The Company's treasury shares may be issued upon the exercise of employee stock options, issuance of shares for the Employee Stock Purchase Plan, issuance of restricted stock, or for other corporate purposes. Further purchases by the Company will occur from time to time as market conditions warrant and as the Company deems appropriate when judged against other alternative uses of cash.

On January 16, 2013, the Company's Board of Directors increased its quarterly cash dividend to \$0.07 per share from \$0.06 per share of Class A common stock. The Company declared dividends of \$12.5 million, \$11.0 million and \$9.1 million during 2013, 2012 and 2011, respectively. As of March 2, 2013 and March 3, 2012, dividends declared but not paid were \$3.4 million and \$3.1 million, respectively. Further declarations of dividends remain at the discretion of the Company's Board of Directors.

On July 20, 2012, all of the Company's shares of Class B common stock were converted on a one-for-one basis into an equal number of shares of Class A common stock in accordance with the terms of the Company's Restated Articles of Incorporation, and the Company eliminated its dual class stock structure. The Company did not receive any proceeds from the conversion of the Class B shares, and the Company will not receive any proceeds from the sale of any Class A shares issued as a result of the conversion. Per the Company's Restated Articles of Incorporation, as of the conversion, all Class B shares are no longer authorized.

**Table of Contents**

**THE FINISH LINE, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**10. Impairment Charges**

The 2013 impairment charges of \$5.6 million was primarily a result of \$3.7 million associated with the Company's updated website that launched during the third quarter of fiscal 2013. Subsequently, it became apparent that there was a degradation of the customer experience, evidenced by a decline in several key performance indicators. As a result, the Company made the strategic decision to transition back to the Company's legacy website given the importance of the selling season. In February 2013, the Company made the decision to permanently abandon the updated website. The impairment charges also include \$1.9 million for long-lived assets of 6 underperforming stores. The 2012 and 2011 impairment charges of \$1.0 million and \$1.2 million, respectively, was a result of the write-off of long-lived assets of 4 and 5 underperforming stores, respectively. The asset impairment review encompassed a review of property and equipment related to all stores open for at least two years with negative contribution and cash flows as well as stores open less than two years whenever other events or changes in circumstances indicate the store's assets may not be recoverable.

**11. Contingencies**

The Company is subject from time to time to certain legal proceedings and claims in the ordinary course of conducting its business. The Company establishes a liability related to its legal proceedings and claims when it has determined that it is probable that the Company has incurred a liability and the related amount can be reasonably estimated. If the Company determines that an obligation is reasonably possible, the Company will, if material, disclose the nature of the loss contingency and the estimated range of possible loss, or include a statement that no estimate of loss can be made. The Company believes there are no pending legal proceedings in which the Company is currently involved which will have a material adverse effect on the Company's financial position, results of operations or cash flow.

**Table of Contents****THE FINISH LINE, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****12. Quarterly Financial Information (Unaudited)**

The Company's merchandise is marketed during all seasons, with the highest volume of merchandise sold during the second and fourth fiscal quarters as a result of back-to-school and holiday shopping. The third fiscal quarter has traditionally had the lowest volume of merchandise sold and the lowest results of operations.

The following table sets forth quarterly operating data of the Company, including such data as a percentage of net sales, for 2013 and 2012. This quarterly information is unaudited but, in management's opinion, reflects all adjustments, consisting only of normal recurring adjustments, other than those noted, necessary for a fair presentation of the information for the periods presented.

	June 2, 2012		September 1, 2012		Quarter Ended December 1, 2012		March 2, 2013(a)	
(Dollars in thousands, except per share data)								
Statement of Operations Data:								
Net sales	\$ 319,049	100.0%	\$ 385,011	100.0%	\$ 296,623	100.0%	\$ 442,682	100.0%
Cost of sales (including occupancy costs)	214,390	67.2	250,461	65.0	206,833	69.7	287,237	64.9
Gross profit	104,659	32.8	134,550	35.0	89,790	30.3	155,445	35.1
Selling, general and administrative expenses	84,818	26.6	94,711	24.6	91,447	30.8	94,907	21.4
Store closing costs	95		325	0.1	1		250	0.1
Impairment charges	28						5,565	1.2
Operating income (loss)	19,718	6.2	39,514	10.3	(1,658)	(0.5)	54,723	12.4
Interest income, net	71		58		38		31	
Income (loss) before income taxes	19,789	6.2	39,572	10.3	(1,620)	(0.5)	54,754	12.4
Income tax expense (benefit)	7,708	2.4	15,136	3.9	(811)	(0.3)	21,281	4.8
Net income (loss)	12,081	3.8	24,436	6.4	(809)	(0.2)	33,473	7.6
Net loss attributable to redeemable noncontrolling interest	197	0.1	537	0.1	702	0.2	856	0.1
Net income (loss) attributable to The Finish Line, Inc.	\$ 12,278	3.9%	\$ 24,973	6.5%	\$ (107)	%\$	\$ 34,329	7.7%
Net income (loss) per basic share(b):	\$ 0.24		\$ 0.49		\$ 0.00		\$ 0.70	
Net income (loss) per diluted share(b):	\$ 0.24		\$ 0.49		\$ 0.00		\$ 0.69	
Dividends declared per share	\$ 0.06		\$ 0.06		\$ 0.06		\$ 0.07	

**Table of Contents****THE FINISH LINE, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	May 28, 2011		August 27, 2011		Quarter Ended November 26, 2011		March 3, 2012(a)	
	(Dollars in thousands, except per share data)							
Statement of Operations Data:								
Net sales	\$ 299,474	100.0%	\$ 331,514	100.0%	\$ 282,011	100.0%	\$ 456,260	100.0%
Cost of sales (including occupancy costs)	196,211	65.5	215,180	64.9	191,002	67.7	286,737	62.8
Gross profit	103,263	34.5	116,334	35.1	91,009	32.3	169,523	37.2
Selling, general and administrative expenses	76,675	25.6	82,076	24.7	83,067	29.5	101,811	22.3
Store closing costs	17		580	0.2	368	0.1	226	0.1
Impairment charges							974	0.2
Operating income	26,571	8.9	33,678	10.2	7,574	2.7	66,512	14.6
Interest income, net	142		139		109		57	
Income before income taxes	26,713	8.9	33,817	10.2	7,683	2.7	66,569	14.6
Income tax expense	10,297	3.4	12,897	3.9	2,135	0.7	24,649	5.4
Net income	\$ 16,416	5.5%	\$ 20,920	6.3%	\$ 5,548	2.0%	\$ 41,920	9.2%
Net income per basic share(b):	\$ 0.31		\$ 0.40		\$ 0.11		\$ 0.81	
Net income per diluted share(b):	\$ 0.30		\$ 0.39		\$ 0.11		\$ 0.80	
Dividends declared per share	\$ 0.05		\$ 0.05		\$ 0.05		\$ 0.06	

(a) The Company utilizes the retail calendar for reporting. As such, the results for 2013 represent the 52 week period ended March 2, 2013 and 2012 represent the 53 week period ended March 3, 2012. The 2013 fourth quarter consists of a 13 week period versus a 14 week period in 2012.

(b) Income (loss) per share is computed independently for each of the quarters presented. Therefore, the sum of the quarterly amounts may not equal the total for the fiscal year.



## **Table of Contents**

### **Item 9 Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

### **Item 9A Controls and Procedures**

**(a) Evaluation of Disclosure Controls and Procedures.** With the participation of our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures were effective in ensuring that (i) information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and (ii) information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

**(b) Management's Report on Internal Control Over Financial Reporting.** The report of management of the Company regarding internal control over financial reporting appears under the caption "Management's Report On Internal Control Over Financial Reporting" in Item 8 preceding the Company's financial statements of this Annual Report on Form 10-K and is incorporated by reference herein.

**(c) Changes in Internal Control over Financial Reporting.** There were no changes in the Company's internal control over financial reporting during the fourth quarter of fiscal 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**(d) Attestation Report of Independent Registered Public Accounting Firm.** The attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting appears under the caption "Report of Independent Registered Public Accounting Firm" in Item 8 preceding the Company's financial statements of this Annual Report on Form 10-K and is incorporated by reference herein.

### **Item 9B Other Information**

None.

**Table of Contents****PART III****Item 10 Directors, Executive Officers and Corporate Governance**

Except for information disclosed in Part I under the heading Directors and Executive Officers of the Registrant, the information required by this Item is incorporated by reference to the information contained under the captions Management Executive Officers and Directors,

Management Section 16(a) Beneficial Ownership Reporting Compliance and Board of Directors, Committees and Meetings Meetings and Committees of the Board of Directors The Audit Committee in the Company's Proxy Statement for its Annual Shareholders Meeting (the 2013 Proxy Statement) to be filed with the Securities and Exchange Commission within 120 days of March 2, 2013, the Company's most recent fiscal year-end. The Company has a Code of Ethics policy that applies to all officers, employees and directors of the Company, which was last amended on February 11, 2013. It and other corporate governance documents are available at the Company's website at [www.finishline.com](http://www.finishline.com).

**Item 11 Executive Compensation**

The information required by this Item is incorporated herein by reference to the information contained under the caption Executive Compensation in the 2013 Proxy Statement to be filed within 120 days of March 2, 2013, the Company's most recent fiscal year-end.

**Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this Item is incorporated herein by reference to the information contained under the caption Security Ownership of Certain Beneficial Owners and Management in the 2013 Proxy Statement to be filed within 120 days of March 2, 2013, the Company's most recent fiscal year-end.

**Equity Compensation Plan Information**

The following table provides information with respect to compensation plans under which equity securities of the Company are currently authorized for issuance to employees or non-employees (such as directors, consultants, advisors, vendors, customers, suppliers or lenders), as of March 2, 2013:

Plan Category	(a) Number of shares to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted average exercise price of outstanding options, warrants and rights	(c) Number of shares remaining available for future issuance under equity compensation plans (excluding shares reflected in column (a))
Equity compensation plans approved by shareholders(1)	2,196,177	\$ 14.54	6,468,577(2)
Equity compensation plans not approved by shareholders			

(1) These shares are subject to awards made or to be made under the Company's 2002 Stock Incentive Plan, 2009 Incentive Plan, Non-Employee Director Stock Option Plan and Employee Stock Purchase Plan.

(2) Includes the following shares which remain available for future issuance under the referenced plan as of March 2, 2013: (i) 291,520 shares under the 2002 Stock Incentive Plan; (ii) 4,168,676 shares under the 2009 Incentive Plan; and (iii) 2,008,381 shares under the Employee Stock Purchase Plan. From and after July 23, 2009, the only shares issuable under the 2002 Stock Incentive Plan (other than shares issuable upon the exercise of outstanding options, as disclosed in column (a)) include 291,520 shares eligible for issuance in respect of shares returned to the plan by forfeiture after July 23, 2009.

**Item 13 Certain Relationships and Related Transactions, and Director Independence**

## Edgar Filing: FINISH LINE INC /IN/ - Form 10-K

The information required by this Item is incorporated herein by reference to the information contained under the captions Executive Compensation Related Party Transactions and Board of Directors, Committees and Meetings Independence of Directors in the 2013 Proxy Statement to be filed within 120 days of March 2, 2013, the Company's most recent fiscal year-end.

### **Item 14 Principal Accounting Fees and Services**

The information required by this Item is incorporated herein by reference to the information contained under the captions Audit Committee Report Independent Auditor Fee Information and Audit Committee Report Pre-Approval Policies and Proceedings in the 2013 Proxy Statement to be filed within 120 days of March 2, 2013, the Company's most recent fiscal year-end.

**Table of Contents****PART IV****Item 15 Exhibits, Financial Statement Schedules**

(a) The following financial statements of The Finish Line, Inc. and the report of the independent registered public accounting firm are filed in Item 8 as part of this Annual Report on Form 10-K:

<u>Report of Independent Registered Public Accounting Firm</u>	<b>Page</b> 30
<u>Consolidated Balance Sheets as of March 2, 2013 and March 3, 2012</u>	31
<u>Consolidated Statements of Income for the years ended March 2, 2013, March 3, 2012 and February 26, 2011</u>	32
<u>Consolidated Statements of Cash Flows for the years ended March 2, 2013, March 3, 2012 and February 26, 2011</u>	33
<u>Consolidated Statements of Changes in Shareholders' Equity for the years ended March 2, 2013, March 3, 2012 and February 26, 2011</u>	34
<u>Notes to Consolidated Financial Statements</u>	35-52
(b) Financial Statement Schedules	

All schedules for which provision is made in the applicable regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

(c) Exhibits

**Exhibit**

<b>Number</b>	<b>Description</b>
2.1	Asset Purchase Agreement, dated June 21, 2009 by and among The Finish Line Man Alive, Inc., The Finish Line, Inc., Man Alive Acquisitions, LLC, and the other entities listed therein.(4)
3.1	Restated Articles of Incorporation of The Finish Line, Inc., amended and restated as of July 23, 2009.(5)
3.2	Bylaws of The Finish Line, Inc., amended as of July 23, 2009.(6)
4.1	2002 Stock Incentive Plan of The Finish Line, Inc. (as amended and restated July 21, 2005).*
4.2	Amendment No. 1 to the 2002 Stock Incentive Plan of The Finish Line, Inc. (as amended and restated July 21, 2005).*
4.3	Amendment No. 2 to the 2002 Stock Incentive Plan of The Finish Line, Inc. (as amended and restated July 21, 2005).*
4.4	Amendment No. 3 to the 2002 Stock Incentive Plan of The Finish Line, Inc. (as amended and restated July 21, 2005).*
4.5	The Finish Line, Inc. 2009 Incentive Plan.(9)*
10.1	Form of Award Agreement for Employees and Employee Directors pursuant to the 2002 Stock Incentive Plan.(23)*

## **Table of Contents**

### **Exhibit**

<b>Number</b>	<b>Description</b>
10.2	Form of Award Agreement for Nonemployee Directors pursuant to the 2002 Stock Incentive Plan.(24)*
10.3	Form of Non-Qualified Option Award Letter for Employees and Employee Directors pursuant to the 2002 Stock Incentive Plan.(25)*
10.4	Form of Non-Qualified Option Award Letter for Nonemployee Directors pursuant to the 2002 Stock Incentive Plan.(26)*
10.5	Form of Incentive Stock Award Letter pursuant to the 2002 Stock Incentive Plan.(27)*
10.6	Form of Indemnity Agreement between The Finish Line Inc. and each of its Directors or Executive Officers.(14)
10.7	The Finish Line, Inc. Non-Employee Director Stock Option Plan, as amended and restated.(15)*
10.8	The Finish Line, Inc. Employee Stock Purchase Plan.(16)*
10.9	The Finish Line, Inc. Non-Qualified Deferred Compensation Plan.*
10.10	Amendment No. 1 to The Finish Line, Inc. Non-Qualified Deferred Compensation Plan.*
10.11	Amended and Restated Employment Agreement of Glenn S. Lyon, dated as of December 31, 2008.(1)*
10.12	Amended and Restated Employment Agreement of Steven J. Schneider, dated as of December 31, 2008.(2)*
10.13	Employment Agreement of Edward W. Wilhelm, dated as of March 30, 2009.(3)*
10.14	Amendment No. 1 to the Amended and Restated Employment Agreement of Edward W. Wilhelm.(22)*
10.15	Form of The Finish Line, Inc. 2009 Incentive Plan Non-Qualified Stock Option Award Agreement.(7)*
10.16	Form of The Finish Line, Inc. 2009 Incentive Plan Restricted Stock Award Agreement.(8)*
10.17	Amended and Restated Revolving Credit Facility Credit Agreement, dated as of November 30, 2012, by and among The Finish Line, Inc., The Finish Line USA, Inc., The Finish Line Distribution, Inc., Finish Line Transportation Co., Inc., and Spike's Holding, LLC as Borrowers, The Finish Line MA, Inc., as Guarantor, certain Lenders named therein, Bank of America, N.A., as Syndication Agent, and PNC Bank, National Association, as Administrative Agent, Lead Arranger, and Sole Book Runner.(28)
10.18	Amended and Restated Continuing Agreement of Guaranty And Suretyship Subsidiaries, dated as of November 30, 2012, by The Finish Line MA, Inc.(29)
10.19	Amendment No. 1 to the Amended and Restated Employment Agreement for Mr. Steven Schneider.(10)*
10.20	Amendment No. 2 to the Amended and Restated Employment Agreement for Mr. Steven Schneider.(20)*
10.21	Amendment No. 1 to the Amended and Restated Employment Agreement for Mr. Glenn Lyon.(11)*
10.22	Amendment No. 2 to the Amended and Restated Employment Agreement for Mr. Glenn Lyon.(21)*
10.23	Form of Restricted Stock Award Agreement for Time Based Vesting.(12)*
10.24	Form of Restricted Stock Award Agreement for Performance Based Vesting.(13)*
10.25	Amendment No. 1 to The Finish Line, Inc. 2009 Incentive Plan.(17)*

## **Table of Contents**

### **Exhibit**

<b>Number</b>	<b>Description</b>
10.26	Amended and Restated Employment Agreement of George S. Sanders, dated as of December 31, 2008.(18)*
10.27	Amendment No. 1 to the Amended and Restated Employment Agreement of George S. Sanders.(19)*
10.28	Resignation and General Release Agreement, effective November 29, 2011, by and between Gary D. Cohen and The Finish Line, Inc.(30)*
10.29	Amended and Restated Employment Agreement of Samuel M. Sato, dated as of December 31, 2008.*
10.30	Amendment No. 1 to the Amended and Restated Employment Agreement of Samuel M. Sato.*
14	Code of Ethics of The Finish Line, Inc., amended as of February 11, 2013.(31)
21	Subsidiaries of The Finish Line, Inc.
23	Consent of Independent Registered Public Accounting Firm.
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act, as amended.
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act, as amended.
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.
101	The following materials from the Company's Form 10-K for the year ended March 2, 2013, formatted in an XBRL Interactive Data File: (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Income; (iii) Consolidated Statements of Cash Flows; (iv) Consolidated Statements of Changes in Shareholders' Equity; and (v) Notes to Consolidated Financial Statements, with detailed tagging of notes and financial statement schedules.**

- (1) Previously filed as Exhibit 10.1 of the Registrant's Current Report on Form 8-K/A filed with the Securities and Exchange Commission on December 31, 2008 and incorporated herein by reference.
- (2) Previously filed as Exhibit 10.2 of the Registrant's Current Report on Form 8-K/A filed with the Securities and Exchange Commission on December 31, 2008 and incorporated herein by reference.
- (3) Previously filed as Exhibit 10.1 of the Registrant's Current Report on Form 8-K/A filed with the Securities and Exchange Commission on April 14, 2009 and incorporated herein by reference.
- (4) Previously filed as Exhibit 2.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 22, 2009 and incorporated herein by reference.
- (5) Previously filed as Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 23, 2009 and incorporated herein by reference.
- (6) Previously filed as Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 24, 2009 and incorporated herein by reference.
- (7) Previously filed as Exhibit 10.2 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 23, 2009 and incorporated herein by reference.
- (8) Previously filed as Exhibit 10.3 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 23, 2009 and incorporated herein by reference.
- (9) Previously filed as Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 23, 2009 and incorporated herein by reference.
- (10) Previously filed as Exhibit 99.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 2, 2010 and incorporated herein by reference.
- (11) Previously filed as Exhibit 99.2 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 2, 2010 and incorporated herein by reference.
- (12) Previously filed as Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 11, 2011 and incorporated herein by reference.
- (13) Previously filed as Exhibit 10.2 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 11, 2011 and incorporated herein by reference.
- (14) Previously filed as Exhibit 10.8 to the Registrant's Annual Report on Form 10-K for the year ended February 27, 2010 and incorporated herein by reference.
- (15)

## Edgar Filing: FINISH LINE INC /IN/ - Form 10-K

Previously filed as Exhibit 10.9 to the Registrant's Annual Report on Form 10-K for the year ended February 27, 2010 and incorporated herein by reference.

- (16) Previously filed as Exhibit 10.10 to the Registrant's Annual Report on Form 10-K for the year ended February 27, 2010 and incorporated herein by reference.
- (17) Previously filed as Exhibit 10.28 to the Registrant's Annual Report on Form 10-K for the year ended February 27, 2010 and incorporated herein by reference.
- (18) Previously filed as Exhibit 99.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 3, 2011 and incorporated herein by reference.

## **Table of Contents**

- (19) Previously filed as Exhibit 99.2 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 3, 2011 and incorporated herein by reference.
- (20) Previously filed as Exhibit 99.2 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 18, 2011 and incorporated herein by reference.
- (21) Previously filed as Exhibit 99.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 18, 2011 and incorporated herein by reference.
- (22) Previously filed as Exhibit 99.4 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 18, 2011 and incorporated herein by reference.
- (23) Previously filed as Exhibit 10.3 to the Registrant's Annual Report on Form 10-K for the year ended February 26, 2011 and incorporated herein by reference.
- (24) Previously filed as Exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the year ended February 26, 2011 and incorporated herein by reference.
- (25) Previously filed as Exhibit 10.5 to the Registrant's Annual Report on Form 10-K for the year ended February 26, 2011 and incorporated herein by reference.
- (26) Previously filed as Exhibit 10.6 to the Registrant's Annual Report on Form 10-K for the year ended February 26, 2011 and incorporated herein by reference.
- (27) Previously filed as Exhibit 10.7 to the Registrant's Annual Report on Form 10-K for the year ended February 26, 2011 and incorporated herein by reference.
- (28) Previously filed as Exhibit 99.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 6, 2012 and incorporated herein by reference.
- (29) Previously filed as Exhibit 99.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 6, 2012 and incorporated herein by reference.
- (30) Previously filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended November 26, 2011 and incorporated herein by reference.
- (31) Previously filed as Exhibit 99.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 13, 2013 and incorporated herein by reference.

\* Management contract or compensatory plan, contract or arrangement.

\*\* Users of the XBRL-related information in Exhibit 101 of this Annual Report on Form 10-K are advised, in accordance with Regulation S-T Rule 406T, that this Interactive Data File is deemed not filed or as a part of a registration statement for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise not subject to liability under these sections. The financial information contained in the XBRL-related documents is unaudited and unreviewed.



---

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE FINISH LINE, INC.

Date: April 29, 2013

By: **/s/ EDWARD W. WILHELM**  
**Edward W. Wilhelm,**  
  
**Executive Vice President,**  
  
**Chief Financial Officer**

**POWER OF ATTORNEY**

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature to the Annual Report on Form 10-K appears below here by constitutes and appoints Glenn S. Lyon and Edward W. Wilhelm as such person's true and lawful attorney-in-fact and agent with full power of substitution for such person and in such person's name, place and stead, in any and all capacities, to sign and to file with the Securities and Exchange Commission, any and all amendments to this Annual Report on Form 10-K, with exhibits thereto and other documents in connection therewith, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as such person might or could do in person, hereby ratifying and confirming all that said in attorney-in-fact and agent, or any substitute therefor, may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: April 29, 2013

**/s/ GLENN S. LYON**  
**Glenn S. Lyon,**

**Chairman and Chief Executive Officer**  
  
**(Principal Executive Officer)**

Date: April 29, 2013

**/s/ EDWARD W. WILHELM**  
**Edward W. Wilhelm,**

**Executive Vice President, Chief Financial Officer**  
  
**(Principal Financial Officer)**

Date: April 29, 2013

**/s/ BEAU J. SWENSON**  
**Beau J. Swenson,**

**Senior Vice President and Chief Accounting Officer**  
  
**(Principal Accounting Officer)**

Date: April 29, 2013

**/s/ STEPHEN GOLDSMITH**  
**Stephen Goldsmith, Director**

Date: April 29, 2013

**/s/ BILL KIRKENDALL**

Edgar Filing: FINISH LINE INC /IN/ - Form 10-K

**Bill Kirkendall, Director**

Date: April 29, 2013

/s/ WILLIAM P. CARMICHAEL  
**William P. Carmichael, Director**

Date: April 29, 2013

/s/ CATHERINE A. LANGHAM  
**Catherine A. Langham, Director**

Date: April 29, 2013

/s/ DOLORES A. KUNDA  
**Dolores A. Kunda, Director**

Date: April 29, 2013

/s/ NORMAN H. GURWITZ  
**Norman H. Gurwitz, Director**

Date: April 29, 2013

/s/ RICHARD P. CRYSTAL  
**Richard P. Crystal, Director**

Date: April 29, 2013

/s/ TORRENCE BOONE  
**Torrence Boone, Director**

**Table of Contents**

**Exhibit Index**

**Exhibit**

<b>Number</b>	<b>Description</b>
4.1	2002 Stock Incentive Plan of The Finish Line, Inc. (as amended and restated July 21, 2005).
4.2	Amendment No. 1 to the 2002 Stock Incentive Plan of The Finish Line, Inc. (as amended and restated July 21, 2005).
4.3	Amendment No. 2 to the 2002 Stock Incentive Plan of The Finish Line, Inc. (as amended and restated July 21, 2005).
4.4	Amendment No. 3 to the 2002 Stock Incentive Plan of The Finish Line, Inc. (as amended and restated July 21, 2005).
10.9	The Finish Line, Inc. Non-Qualified Deferred Compensation Plan.
10.10	Amendment No. 1 to The Finish Line, Inc. Non-Qualified Deferred Compensation Plan.
10.29	Amended and Restated Employment Agreement of Samuel M. Sato, dated as of December 31, 2008.
10.30	Amendment No. 1 to the Amended and Restated Employment Agreement of Samuel M. Sato.
21	Subsidiaries of The Finish Line, Inc.
23	Consent of Independent Registered Public Accounting Firm.
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act, as amended.
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act, as amended.
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.
101	The following materials from the Company's Form 10-K for the year ended March 2, 2013, formatted in an XBRL Interactive Data File: (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Income; (iii) Consolidated Statements of Cash Flows; (iv) Consolidated Statements of Changes in Shareholders' Equity; and (v) Notes to Consolidated Financial Statements, with detailed tagging of notes and financial statement schedules.