

HIBBETT SPORTS INC
Form 10-K
March 26, 2012

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: January 28, 2012

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: 000-20969

HIBBETT SPORTS, INC.
(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

20-8159608
(I.R.S. Employer
Identification No.)

451 Industrial Lane, Birmingham, Alabama 35211
(Address of principal executive offices, including zip code)

205-942-4292
(Registrant's telephone number, including area code)

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

| | |
|--|---|
| Common Stock, \$0.01 Par Value Per Share | NASDAQ Global Select Market |
| Title of Class | Name of each exchange on which registered |

Securities registered pursuant to section 12(g) of NONE

the Act:

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 ☒

Edgar Filing: HIBBETT SPORTS INC - Form 10-K

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 Exchange Act.

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 (assuming for purposes of this calculation that all executive officers and directors are "affiliates") was \$1,061,279,115 on July 29, 2011, based on the closing sale price of \$39.24 at July 29, 2011 for the common stock on such date on the NASDAQ Global Select Market.

The number of shares outstanding of the Registrant's common stock, as of March 16, 2012 was 26,297,500.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Annual Report to Stockholders for the year ended January 28, 2012 are incorporated by reference into Part II and portions of the Registrant's Proxy Statement for the 2012 Annual Meeting of Stockholders to be held on May 24, 2012 are incorporated by reference into Part III of this Annual Report on Form 10-K. Registrant's definitive Proxy Statement will be filed with the Securities and Exchange Commission on or before April 23, 2012.

HIBBETT SPORTS, INC.

INDEX

| | Page |
|--|------|
| <u>PART I</u> | |
| Item 1. <u>Business.</u> | 5 |
| Item 1A. <u>Risk Factors.</u> | 10 |
| Item 1B. <u>Unresolved Staff Comments.</u> | 16 |
| Item 2. <u>Properties.</u> | 16 |
| Item 3. <u>Legal Proceedings.</u> | 17 |
| Item 4. <u>Mine Safety Disclosures.</u> | 17 |
| <u>PART II</u> | |
| Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.</u> | 18 |
| Item 6. <u>Selected Consolidated Financial Data.</u> | 20 |
| Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations.</u> | 21 |
| Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk.</u> | 30 |
| Item 8. <u>Consolidated Financial Statements and Supplementary Data.</u> | 31 |
| Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.</u> | 50 |
| Item 9A. <u>Controls and Procedures.</u> | 51 |
| Item 9B. <u>Other Information.</u> | 51 |
| <u>Part III</u> | |
| Item 10. <u>Directors, Executive Officers and Corporate Governance.</u> | 52 |
| Item 11. <u>Executive Compensation.</u> | 52 |
| Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.</u> | 52 |
| Item 13. <u>Certain Relationships and Related Transactions, and Director Independence.</u> | 52 |
| Item 14. <u>Principal Accounting Fees and Services.</u> | 53 |
| <u>Part IV</u> | |
| Item 15. <u>Exhibits and Consolidated Financial Statement Schedules.</u> | 53 |
| <u>Signatures.</u> | 56 |

A warning about Forward-Looking Statements

This document contains “forward-looking statements” as that term is used in the Private Securities Litigation Reform Act of 1995. Forward-looking statements address future events, developments and results. They include statements preceded by, followed by or including words such as “believe,” “anticipate,” “expect,” “intend,” “plan,” “target” or “estimate.” For example, our forward-looking statements include statements regarding:

- our anticipated net sales, including comparable store net sales changes, net sales growth and earnings;
- our growth, including our plans to add, expand or relocate stores and square footage growth, our markets’ ability to support such growth and the suitability of our distribution facility;
- the cost of regulatory compliance, including those directed at climate change and its effects and the costs and possible outcomes of pending legal actions and other contingencies;
- our cash needs, including our ability to fund our future capital expenditures and working capital requirements;
 - our analysis of our risk factors and their possible effect on financial results;
 - our ability and plans to renew our revolving credit facilities;
 - our seasonal sales patterns and assumptions concerning customer buying behavior;
 - our expectations regarding competition;
 - our ability to renew or replace store leases satisfactorily;
- our estimates and assumptions as they relate to preferable tax and financial accounting methods, accruals, inventory valuations, dividends, long-lived assets, store closures, carrying amount and liquidity of financial instruments and fair value of options and other stock-based compensation as well as our estimates of economic and useful lives of depreciable assets and leases;
 - our expectations concerning future stock-based award types;
 - our expectations concerning employee stock option exercise behavior;
- the possible effect of inflation, market decline and other economic changes on our costs and profitability, and ability to secure suitable locations for new stores;
- the possible effects of continued volatility and further deterioration of the capital markets, the commercial credit environment and the lowered levels of consumer confidence and higher levels of unemployment;
 - our analyses of trends as related to earnings performance;
 - our target market presence and its expected impact on our net sales growth;
 - our expectations concerning vendor level purchases and related discounts;
- our estimates and assumptions related to income tax liabilities, deferred taxes and uncertain tax positions;
 - the future reliability of, and cost associated with, our sources of supply, particularly imported goods;
 - the loss of key vendor support; and
 - our ability to mitigate the risk of possible business interruptions.

You should assume that the information appearing in this report is accurate only as of the date it was issued. Our business, financial condition, results of operations and prospects may have changed since that date. For a discussion of the risks, uncertainties and assumptions that could affect our future events, developments or results, you should carefully review the “Risk Factors” described beginning on page 10, as well as “Management’s Discussion and Analysis of Financial Condition and Results of Operations” beginning on page 21.

Our forward-looking statements could be wrong in light of these risks, uncertainties and assumptions. The future events, developments or results described in this report could turn out to be materially different. We have no obligation to publicly update or revise our forward-looking statements after the date of this Annual Report and you should not expect us to do so. Investors should also be aware that while we do, from time to time, communicate with securities analysts and others, we do not, by policy, selectively disclose to them any material non-public information with any statement or report issued by any analyst regardless of the content of the statement or report. We do not, by policy, confirm forecasts or projections issued by others. Thus, to the extent that reports issued by securities analysts

contain any projections, forecasts or opinions, such reports are not our responsibility.

Introductory Note

Unless specifically indicated otherwise, any reference to “2013” or “Fiscal 2013” relates to our year ending February 2, 2013, which is a 53-week period. Any reference to “2012” or “Fiscal 2012” relates to our year ended January 28, 2012, which was a 52-week period. Any reference to “2011” or “Fiscal 2011” relates to our year ended January 29, 2011, which was a 52-week period. Any reference to “2010” or “Fiscal 2010” relates to our year ended January 30, 2010, which was a 52-week period. References to “we”, “our”, “us” and the “Company” used throughout this document refer to Hibbett Sports, Inc. and its subsidiaries as well as its predecessors.

PART 1

Item 1. Business.

Our Company

Our Company was organized in 1945 under the name Dixie Supply Company in Florence, Alabama, specializing primarily in the marine and small aircraft business. In 1951, the Company started targeting school athletic programs in North Alabama and by the end of the 1950's had developed a profitable team sales business. Since 1960, we have been solely in the sporting goods business. In 1965, we opened Dyess & Hibbett Sporting Goods in Huntsville, Alabama, and hired Mickey Newsome, our current Executive Chairman of the Board. The following year, we opened another sporting goods store in Birmingham and by the end of 1980, we had 12 stores in central and northwest Alabama with a distribution center located in Birmingham and our central accounting office in Florence. We went public in October 1996 when we had 79 stores and were incorporated under the laws of the State of Delaware as Hibbett Sporting Goods, Inc. We incorporated under the laws of the State of Delaware as Hibbett Sports, Inc. in January 2007, and on February 10, 2007, Hibbett Sports, Inc. became the successor holding company for Hibbett Sporting Goods, Inc., which is now our operating subsidiary.

Today, we operate sporting goods stores in small to mid-sized markets predominantly in the Southeast, Southwest, Mid-Atlantic and the Midwest. As of January 28, 2012, we operated 832 stores in 26 states consisting of 812 Hibbett Sports stores as well as 19 smaller-format Sports Additions athletic shoe stores and 1 larger-format Sports & Co. superstore. Our primary retail format and growth vehicle is Hibbett Sports, a 5,000 square foot store located primarily in strip centers, which are usually influenced by a Wal-Mart store. Approximately 77% of our Hibbett Sports store base is located in strip centers, which includes free-standing stores, while approximately 23% of our Hibbett Sports store base is located in enclosed malls. We expect to continue our store base growth in strip centers versus enclosed malls.

We offer convenient locations and a broad assortment of quality athletic equipment, footwear and apparel with a high level of customer service. Our merchandise assortment emphasizes team sports complemented by localized apparel, footwear and accessories designed to appeal to a wide range of customers within each individual market.

Available Information

The Company maintains an Internet website at the following address: www.hibbett.com.

We make available free of charge on or through our website under the heading "Investor Relations," certain reports that we file with or furnish to the Securities and Exchange Commission (SEC) in accordance with the Securities Exchange Act of 1934 (Exchange Act). These include our Annual Reports on Form 10-K, our quarterly reports on Form 10-Q and our current reports on Form 8-K. We make this information available on our website as soon as reasonably practicable after we electronically file the information with or furnish it to the SEC. In addition to accessing copies of our reports online, you may request a copy of our Annual Report on Form 10-K for the fiscal year ended January 28, 2012, at no charge, by writing to: Investor Relations, Hibbett Sports, Inc., 451 Industrial Lane, Birmingham, Alabama 35211.

Reports filed with or furnished to the SEC are also available free of charge upon request by contacting our corporate office at (205) 942-4292.

The public may also read or copy any materials filed by us with the SEC at the SEC's Public Reference Room at 100F Street, N.E., Washington, DC 20549. Information may be obtained on the operation of the Public Reference Room by

calling the SEC at 1-800-732-0330. The SEC also maintains a website that contains reports, proxy and information statements, and other information regarding issuers that file electronically at www.sec.gov.

Our Business Strategy

We target markets with county populations that range from 25,000 to 75,000. By targeting these smaller markets, we believe that we achieve important strategic advantages, including store growth opportunities, comparatively low operating costs and a more limited competitive environment than generally faced in larger markets. In addition, we establish greater customer, vendor and landlord recognition as a leading sporting goods retailer in these local communities.

We believe our ability to merchandise to local sporting and community interests differentiates us from our national competitors. This strong regional focus also enables us to achieve significant cost benefits including lower corporate expenses, reduced distribution costs and increased economies of scale from marketing activities. Additionally, we use sophisticated information systems to maintain tight controls over inventory and operating costs and continually search for ways to improve the customer experience and efficiencies through information system upgrades.

We strive to hire enthusiastic sales people with an interest in sports. Our extensive training program focuses on product knowledge and selling skills and is conducted through the use of in-store clinics, DVDs, self-study courses, interactive group discussions and Hibbett University designed specifically for store management.

Our Store Concepts

Hibbett Sports

Our primary retail format is Hibbett Sports, a 5,000 square foot store located primarily in strip centers, which are usually influenced by a Wal-Mart store. In considering locations for our Hibbett Sports stores, we take into account the size, demographics, quality of real estate and competitive conditions of each market. Of these stores, 625 Hibbett Sports stores are located in strip centers, which include free-standing stores, with the remaining 187 stores located in enclosed malls, the majority of which are the only enclosed malls in their county.

Hibbett Sports stores offer a core selection of quality, brand name merchandise with an emphasis on team sports. This merchandise mix is complemented by a selection of localized apparel, footwear and accessories designed to appeal to a wide range of customers within each market. We strive to respond quickly to major sporting events of local interest. Such events in the last few years included The University of Alabama's and Auburn University's historic football seasons and ultimate victories in the Bowl Championship Series (BCS) National Championship games as well as the successful seasons of the LSU Tigers college football team, the Pittsburgh Steelers, New Orleans Saints and Green Bay Packers professional football teams, the Texas Rangers, St. Louis Cardinals and New York Yankees professional baseball teams, and the Chicago Bulls, Oklahoma City Thunder and Dallas Mavericks professional basketball teams.

Sports Additions

Our 19 Sports Additions stores are small, primarily enclosed mall-based stores, averaging 2,500 square feet with approximately 90% of merchandise consisting of athletic footwear and the remainder consisting of caps and a limited assortment of apparel. Sports Additions stores offer a more fashion-based merchandise assortment compared to our Hibbett Sports stores. All but four Sports Additions stores are currently located in enclosed malls in which Hibbett Sports stores are also present.

Sports & Co.

We operate one Sports & Co. (Superstore) that was opened in November 1995. The Superstore is approximately 25,000 square feet and offers a broader assortment of athletic footwear, apparel and equipment than our Hibbett Sports stores. Athletic equipment and apparel represent a higher percentage of the overall merchandise mix at the Superstore than they do at Hibbett Sports stores. We have no plans to open any Superstores in the future.

Team

Hibbett Team Sales, Inc. (Team), a wholly-owned subsidiary of the Company, is a leading supplier of customized athletic apparel, equipment and footwear primarily to school athletic programs in Alabama and parts of Georgia, Florida and Mississippi. Team sells its merchandise directly to educational institutions and youth associations. The operations of Team are independent of the operations of our retail stores.

None of our store concepts meet the quantitative or qualitative requirements of the Accounting Standards Codification (ASC) Topic 280, Segment Reporting.

Our Growth Strategy

We currently have identified markets for our Hibbett Sports stores within the states in which we operate to grow to over 1300 stores. Our clustered expansion program, which calls for opening new stores within a two-hour driving

distance of an existing Hibbett location, allows us to take advantage of efficiencies in distribution, marketing and regional management. It also allows us to build on our understanding of merchandise selection for the local market.

In Fiscal 2013, we expect our net store openings to accelerate over Fiscal 2012. We have identified potential markets but have experienced difficulty in securing suitable real estate or leases within the targeted market over the last few years. Although new construction store sites continue to be a challenge to find, we have been able to capitalize on prime locations left vacant by franchised and entertainment-related business closings. While we expect new store growth at a faster pace than the last few years, we still anticipate that the current economic environment, particularly in the commercial real estate market, will continue to make it harder to open our stores at our historical rate of growth. Because of the slowdown of new store openings, we have turned our focus somewhat on expanding high performing stores and have seen successful results from this strategy.

In evaluating potential markets, we consider population, economic conditions, local competitive dynamics, availability of suitable real estate and proximity to existing Hibbett stores. Our continued growth largely depends on our ability to open new stores in a timely manner, to operate them profitably and to manage them effectively. Additionally, successful expansion is subject to various contingencies, many of which are beyond our control. See “Risk Factors.”

Our Distribution

We maintain a single distribution center in Birmingham, Alabama. The distribution process is centrally managed from our corporate headquarters, which is located in the same building as the distribution center. We believe strong distribution support for our stores is a critical element of our expansion strategy and is central to our ability to maintain a low cost operating structure. We also use third-party logistics providers to gain efficiencies in the cost of distribution to approximately 17% of our outlying stores, which also saves space in our distribution center. We believe our current distribution infrastructure, which includes the use of third-party logistics providers, improved technology and vendor assistance with cross-docking, can service over 1,200 stores. The lease for our existing facility expires in December 2014. In Fiscal 2012, we began an active search for a new distribution facility or site to support our expected growth over the next several years with an expected operations date in mid Fiscal 2015.

We receive substantially all of our merchandise at our distribution center. For key products, we maintain backstock at the distribution center that is allocated and distributed to stores through an automatic replenishment program based on inventory levels and sales. Merchandise is typically delivered to stores weekly via Company-operated vehicles or third-party logistics providers.

Our Merchandising Strategy

Our merchandising strategy is to provide a broad assortment of quality brand name footwear, apparel and athletic equipment at competitive prices in a full service environment. Historically, as well as for Fiscal 2012, our most popular consumer item was athletic footwear, followed by performance and fashion apparel and team sports equipment, ranked according to sales.

We believe that the breadth and depth of the brand name merchandise selection that we offer generally exceeds the merchandise selection carried by local independent competitors. Many of these brand name products are highly technical and require considerable sales assistance. We coordinate with our vendors to educate the sales staff at the store level on new products and trends.

Although the core merchandise assortment tends to be similar for each Hibbett Sports store, important local or regional differences exist. Accordingly, our stores offer products that reflect preferences for particular sporting activities in each community and local interests in college and professional sports teams. Our knowledge of these interests, combined with access to leading vendors, enables our merchandising staff to react quickly to emerging trends or special events, such as college or professional championships.

Our merchandising staff, operations staff and management analyze current sporting goods trends primarily through the gathering and analyzing of daily sales activity available through point-of-sale terminals located in the stores. Other strategic measures we utilize to recognize trends or changes in our industry include:

- studying other retailers for best practices in merchandising;
- attending various trade shows, both in our industry and outside as well as reviewing industry trade publications;
 - actively participating in industry associations such as the National Sporting Goods Association (NSGA);
- visiting competitor store locations;
- monitoring product selection at competing stores;
- maintaining close relationships with vendors and other retailers; and
- communicating with our regional vice presidents, district managers and store managers.

The merchandising staff works closely with store personnel to meet the requirements of individual stores for appropriate merchandise in sufficient quantities. Our success depends in part on our ability to anticipate and respond

to changing merchandise trends and consumer demand on a store level in a timely manner. See “Risk Factors.”

Our Vendor Relationships

The sporting goods retail business is brand name driven. Accordingly, we maintain positive relationships with a number of well-known sporting goods vendors to satisfy customer demand. We believe that our stores are among the primary retail distribution avenues for brand name vendors that seek to penetrate our target markets. As a result, we are able to attract considerable vendor interest and establish long-term partnerships with vendors. As our vendors expand their product lines and grow in popularity, we expand sales and promotions of these products within our stores. In addition, as we continue to increase our store base and enter new markets, our vendors increase their brand presence within these regions. We also work with our vendors to establish favorable pricing and to receive cooperative marketing funds. We believe that we maintain good working relationships with our vendors.

The loss of key vendor support could be detrimental to our business, financial condition and results of operations. We believe that we have long-standing and strong relationships with our vendors and that we have adequate sources of brand name merchandise on competitive terms; however, we cannot guarantee that we will be able to acquire such merchandise at competitive prices or on competitive terms in the future. In this regard, certain merchandise that is high profile and in high demand may be allocated by vendors based upon the vendors' internal criterion, which is beyond our control. See “Risk Factors.”

Our Information Systems

We maintain sophisticated information systems and use technology as an enabler of our business strategies. For example, we have implemented systems targeted at improving financial control, cost management, inventory control, merchandise planning, replenishment and product allocation. In recent years, we have focused on information systems that are designed to be used in all stores, yet are flexible enough to meet the unique needs of each specific store location.

A communications network sends and receives critical business data to and from our stores, providing timely and extensive information on business activity in every location. Our information is processed in a secure environment to protect both the actual data and the physical assets. We attempt to mitigate the risk of possible business interruptions by maintaining a disaster recovery plan, which includes storing critical business information off-site.

We strive to maintain highly qualified and motivated individuals to support our information systems, which includes help desk staff, programmers, system analysts, business analysts, project managers and a security officer. Our systems are monitored 24 hours a day. Our management believes that our current systems and practice of implementing regular updates position us well to support current needs and future growth. We use a strategic information systems planning process that involves senior management and is integrated into our overall business planning and enterprise risk management. Information systems projects are prioritized based upon strategic, financial, regulatory and other business criteria.

Our Advertising and Promotion

We target special advertising opportunities in our markets to increase the effectiveness of our advertising budget. Our advertising and promotional spending is centrally directed. Print advertising, including direct mail catalogs and postcards to customers, has historically served as the foundation of our promotional program and accounted for the majority of our total advertising costs in Fiscal 2012. Other advertising, such as television commercials, outdoor billboards, Hibbett trucks, our MVP customer loyalty program and the Hibbett website, are used to reinforce Hibbett's name recognition and brand awareness in the community. By allowing us to reach and interact with our customers on a regular basis through e-mail, the MVP program marketing effort is quickly becoming the most efficient, timely and targeted segment of our marketing program. We expect digital marketing, including mobile, social networks, website and MVP program marketing, to become a more significant portion of our advertising budget over the next several years.

Our Competition

The business in which we are engaged is highly competitive. Many of the items we offer in our stores are also sold by local sporting goods stores, athletic footwear and other specialty athletic stores, traditional shoe stores and national and regional sporting goods stores. The marketplace for sporting goods is highly fragmented as many different retailers compete for market share by utilizing a variety of store formats and merchandising strategies. However, we believe the competitive environment for sporting goods is different in smaller markets where retail demand may not support larger format stores.

Our stores compete with local sporting goods stores, department and discount stores, traditional shoe stores and mass merchandisers. On a limited basis, we have competition from national sporting goods chains in some of our larger markets. Although we face competition from a variety of competitors, including on-line retailers, we believe that our stores are able to compete effectively by being distinguished as sporting goods stores emphasizing team sports and fitness merchandise complemented by a selection of localized apparel and accessories. Our competitors may carry similar product lines and national brands, but we believe the principal competitive factors for all of our stores are

service, convenience, breadth of merchandise offered, availability of brand names and availability of local merchandise. We believe we compete favorably with respect to these factors in the smaller markets predominantly in the Southeast, Southwest, Mid-Atlantic and Midwest regions of the United States. However, we cannot guarantee that we will be able to continue to compete successfully against existing or future competitors. Expansion into markets served by our competitors, entry of new competitors or expansion of existing competitors into our markets, could be detrimental to our business, financial condition and results of operations. See “Risk Factors.”

Our Trademarks

Our Company, by and through subsidiaries, is the owner or licensee of trademarks that are very important to our business. For the most part, trademarks are valid as long as they are in use and/or their registrations are properly maintained. Registrations of trademarks can generally be renewed indefinitely as long as the trademarks are in use.

Following is a list of active trademarks registered and owned by the Company:

- Hibbett Sports, Registration No. 2717584
- Sports Additions, Registration No. 1767761
- Hibbett, Registration No. 3275037

Our Executive Officers

Our current executive officers and their prior business experience are as follows:

Jeffrey O. Rosenthal, age 54, has been our Chief Executive Officer and President since March 2010. Formerly, he served as President and Chief Operating Officer from February 2009 through March 2010 and as Vice President of Merchandising from August 1998 through February 2009. Prior to joining us, Mr. Rosenthal was Vice President and Divisional Merchandise Manager for Apparel with Champs Sports, a division of Foot Locker, Inc. from 1981 to 1998.

Gary A. Smith, age 65, has been our Chief Financial Officer since April 2001. He currently serves as a Senior Vice President. Prior to joining us, Mr. Smith was the Chief Financial and Accounting Officer for Moore-Handley, Inc. from 2000 to 2001. Mr. Smith was the Director of Finance for City Wholesale, Inc. from 1997 to 2000 and a Senior Vice President of Parisian, Inc. from 1979 to 1997. On January 30, 2012, Mr. Smith announced his retirement from the Company effective June 1, 2012. As of the publication date of this filing, his replacement had not been named.

Michael J. Newsome, age 73, has been our Executive Chairman since March 2010. Formerly, he served as our President from 1981 through August 2004 and was named Chief Executive Officer in September 1999 and Chairman of the Board in March 2004. Since joining us as an outside salesman over 40 years ago, Mr. Newsome has held numerous positions with us, including retail clerk, outside salesman to schools, store manager, district manager, regional manager and President. Prior to joining us, Mr. Newsome worked in the sporting goods retail business for six years.

Cathy E. Pryor, age 49, is currently our Senior Vice President of Operations and has been with us since 1988. She has been our Vice President of Operations since 1995. Prior to 1995, Ms. Pryor held positions as a district manager and Director of Store Operations.

Rebecca A. Jones, age 52, was hired as our Vice President of Merchandising in August 2009 and is currently a Senior Vice President of the Company. Prior to joining our Company, she served as Vice President/General Merchandise Manager-Crafts at Jo-Ann Fabric and Craft Stores from 2003 to 2009 and as Vice President/Divisional Merchandise Manager at Wal-Mart Stores from 1999 to 2003. In her prior retail experience, Ms. Jones served in various operations, planning, buying and merchandising positions.

Our Employees

As of January 28, 2012, we employed approximately 2,300 full-time and approximately 4,400 part-time employees, none of whom are represented by a labor union. The number of part-time employees fluctuates depending on seasonal needs. We cannot guarantee that our employees will not, in the future, elect to be represented by a union. We consider our relationship with our employees to be good and have not experienced significant interruptions of operations due to labor disagreements. We have implemented programs in our stores and corporate offices to ensure that we hire and promote the most qualified employees in a non-discriminatory way.

Employee Development. We develop our training programs in a continuing effort to service the needs of our customers and employees. These programs include DVD training in all stores for the latest in technical detail of new products and new operational and customer service techniques. Because we primarily promote or relocate current employees to serve as managers for new stores, training and assessment of our employees is essential to our sustained growth.

One of the most significant programs we have is Hibbett University or “Hibbett U”, which is an intensive, four-day training session designed specifically for store management.

Seasonality

We experience seasonal fluctuations in our net sales and results of operations. Customer buying patterns around the spring sales period and the holiday season historically result in higher first and fourth quarter net sales. Over the past few years, our third quarter has experienced higher than historical net sales, resulting from back-to-school shopping combined with tax-free holidays in many of our markets. In addition, our quarterly results of operations may fluctuate significantly as a result of a variety of factors, including the timing of new store openings, the amount and timing of net sales contributed by new stores, merchandise mix and demand for apparel and accessories driven by local interest in sporting events.

Item 1A. Risk Factors.

You should carefully consider the following risks, as well as the other information contained in this report, before investing in shares of our common stock. If any of the following risks actually occur, our business could be harmed. In that case, the trading price of our common stock could decline, and you might lose all or part of your investment.

Risks Related to Our Business and Industry.

A downturn in the economy could adversely affect consumer purchases of discretionary items, which could reduce our net sales.

In general, our sales represent discretionary spending by our customers. A slowdown in the U.S. economy or other economic conditions affecting disposable consumer income, such as volatile fuel and energy costs, depressed real estate values, employment levels, inflation, business conditions, consumer debt levels, lack of available credit, interest rates and tax rates may adversely affect our business. A reduction in overall consumer spending that causes customers to shift their spending to products other than those sold by us or to products sold by us that are less profitable could result in lower net sales, decreases in inventory turnover or a reduction in profitability due to lower margins.

A slower pace of new store openings may negatively impact our net sales growth and operating income and we may be unable to achieve our expansion plans for future growth.

The opening of new retail stores has contributed significantly to our growth in net sales. In light of the challenging economic environment that has faced real estate developers over the past three years, we have slowed down the pace of our new store openings compared to our historical rate. We expect that this pressure on the commercial market and developers will continue throughout Fiscal 2013 and that we will be able to increase our overall store base by approximately 5% in Fiscal 2013 compared to 4% in Fiscal 2012 and Fiscal 2011. A slower pace of new store openings may negatively impact our net sales growth and operating income.

We have grown rapidly, primarily through opening new stores, from 67 stores at the beginning of Fiscal 1997 to 832 stores at January 28, 2012. Our continued growth depends, in large part, upon our ability to open new stores in a timely manner and to operate them profitably. Successful expansion is subject to various contingencies, many of which are beyond our control. In order to open and operate new stores successfully, we must secure leases on suitable sites with acceptable terms, build-out and equip the stores with furnishings and appropriate merchandise, hire and train personnel and integrate the stores into our operations.

In addition, our expansion strategy may be subject to rising real estate and construction costs, available credit to landlords and developers and landlord bankruptcies that could inhibit our ability to achieve our desired rate of growth. We may also face new competitive, distribution and merchandising challenges different from those we currently face. We cannot give any assurances that we will be able to continue our expansion plans successfully; that we will be able to achieve results similar to those achieved with prior locations; or that we will be able to continue to manage our growth effectively. Our failure to achieve our expansion plans could materially and adversely affect our business, financial condition and results of operations. Furthermore, our operating margins may be impacted in periods in which incremental expenses are incurred as a result of new store openings.

Our estimates concerning long-lived assets and store closures may accelerate.

Our long-term success depends, in part, on our ability to operate stores in a manner that achieves appropriate returns on capital invested. This is particularly challenging with the volatility of the current economic environment and

customer behavior. We will only continue to operate existing stores if they meet required sales or profit levels. In the current macroeconomic environment, the results of our existing stores are impacted not only by a volatile sales environment, but by a number of things that are outside our control, such as the loss of traffic resulting from store closures by significant other retailers in our stores' immediate vicinity.

The uncertainty of the economy, coupled with the volatility in the capital markets, affects our business and, ultimately, our revenue and profitability. To the extent our estimates for net sales, gross profit and store expenses are not realized, future assessments of recoverability could result in impairment charges. In addition, if we were to close stores, we could be subject to costs and charges that may adversely affect our financial results.

Our stores are concentrated within the Southeast, Southwest, Mid-Atlantic and Midwest regions of the United States, which could subject us to regional risks.

Because our stores are located primarily in a concentrated area of the United States, we are subject to regional risks, such as the regional economy, weather conditions and natural disasters such as floods, droughts, tornadoes and hurricanes, increasing costs of electricity, oil and natural gas, as well as government regulations specific in the states and localities within which we operate. We sell a significant amount of team sports merchandise that can be adversely affected by significant weather events that postpone the start of or shorten sports seasons or that limit participation of fans and sports enthusiasts.

Poor performance of college and professional sports teams within our core regions of operation, as well as professional team lockouts, could adversely affect our financial results.

We sell a significant amount of team sports merchandise, the sale of which may be subject to fluctuations based on the success or failure of such teams. The poor performance by the college and professional sports teams within our core regions of operations, as well as professional team lockouts, could cause our financial results to fluctuate accordingly year over year.

The occurrence of severe weather events, catastrophic health events or natural disasters could significantly damage or destroy our retail locations, could prohibit consumers from traveling to our retail locations or could prevent us from resupplying our stores or distribution center, especially during peak shopping seasons.

Unforeseen events, including public health issues and natural disasters such as earthquakes, hurricanes, tornados, snow or ice storms, floods and heavy rains, could disrupt our operations or the operations of our suppliers, as well as the behavior of our consumer. We believe that we take reasonable precautions to prepare particularly for weather-related events; however, our precautions may not be adequate to deal with such events in the future. As these events occur in the future, if they should impact areas in which we have our distribution center or a concentration of retail stores, such events could have a material adverse effect on our business, financial condition and results of operations, particularly if they occur during peak shopping seasons.

Our inability to identify, and anticipate changes in consumer demands and preferences and our inability to respond to such consumer demands in a timely manner could reduce our net sales.

Our products appeal to a broad range of consumers whose preferences cannot be predicted with certainty and are subject to rapid change. Our success depends on our ability to identify product trends as well as to anticipate and respond to changing merchandise trends and consumer demand in a timely manner. We cannot assure you that we will be able to continue to offer assortments of products that appeal to our customers or that we will satisfy changing consumer demands in the future. Accordingly, our business, financial condition and results of operations could be materially and adversely affected if:

- we are unable to identify and respond to emerging trends, including shifts in the popularity of certain products;
- we miscalculate either the market for the merchandise in our stores or our customers' purchasing habits; or
- consumer demand unexpectedly shifts away from athletic footwear or our more profitable apparel lines.

In addition, we may be faced with significant excess inventory of some products and missed opportunities for other products, which could decrease our profitability.

If we lose any of our key vendors or any of our key vendors fail to supply us with merchandise, we may not be able to meet the demand of our customers and our net sales could decline.

We are a reseller of manufacturers' branded items and are thereby dependent on the availability of key products and brands. Our business is dependent to a significant degree upon close relationships with vendors and our ability to purchase brand name merchandise at competitive prices. As a reseller, we cannot control the supply, design, function or cost of many of the products we offer for sale. In addition, many of our vendors provide us with incentives, such as return privileges, volume purchasing allowances and cooperative advertising. The loss of key vendor support or decline or discontinuation of vendor incentives could have a material adverse effect on our business, financial condition and results of operations. We cannot guarantee that we will be able to acquire such merchandise at competitive prices or on competitive terms in the future. In this regard, certain merchandise that is in high demand may be allocated by vendors based upon the vendors' internal criterion, which is beyond our control.

A disruption in the flow of imported merchandise or an increase in the cost of those goods may significantly decrease our net sales and operating income.

We believe many of our largest vendors source a substantial majority of their products from foreign countries. Imported goods are generally less expensive than domestic goods and indirectly contribute significantly to our favorable profit margins. We may experience a disruption or increase in the cost of imported vendor products at any time for reasons beyond our control. If imported merchandise becomes more expensive or unavailable, the transition to alternative sources by our vendors may not occur in time to meet our demands or the demands of our customers. Products from alternative sources may also be more expensive than those our vendors currently import. Risks associated with reliance on imported goods include:

- disruptions in the flow of imported goods because of factors such as:
- raw material shortages, work stoppages, strikes and political unrest;
- problems with oceanic shipping, including blockages at U.S. or foreign ports; and
 - economic crises and international disputes.

- increases in the cost of purchasing or shipping foreign merchandise resulting from:
 - foreign government regulations;
 - rising commodity prices;
- changes in currency exchange rates or policies and local economic conditions; and
- trade restrictions, including import duties, import quotas or loss of “most favored nation” status with the United States.

In addition, to the extent that any foreign manufacturer from whom our vendors are associated may directly or indirectly utilize labor practices that are not commonly accepted in the United States, we could be affected by any resulting negative publicity. Our net sales and operating income could decline if vendors are unable to promptly replace sources providing equally appealing products at a similar cost.

Security threats, including physical and cyber security threats, and unauthorized disclosure of sensitive or confidential information could harm our business and reputation with our consumers.

The protection of Company, customer and employee data is critical to us. We rely on third-party systems, software and monitoring tools to provide security for processing, transmission and storage of confidential customer and employee information such as payment card and personal information. Although our information systems are protected by internal and external security measures, our systems may still be vulnerable to computer viruses, thefts, cyber attacks, acts of vandalism, programming and/or human errors, disruptions caused by unauthorized tampering or outages caused by natural disasters or other similar events.

Cyber security threats are evolving and include, but are not limited to, malicious software, attempts to gain unauthorized access to data and other electronic security breaches that could lead to disruptions in critical systems, unauthorized release of confidential or otherwise protected information and corruption of data. Any security breach involving the misappropriation, loss or other unauthorized disclosure of confidential information, whether by us or our providers, could damage our reputation, expose us to risk of litigation and liability and harm our business.

Problems with our information system could disrupt our operations and negatively impact our financial results and materially adversely affect our business operations.

The efficient operation of our business is dependent on the successful integration and operation of our information systems. In particular, we rely on our information systems to effectively manage our sales, distribution, merchandise planning and replenishment, to process financial information and sales transactions and to optimize our overall inventory levels. We attempt to mitigate the risk of possible business interruptions by maintaining a disaster recovery plan, which includes storing critical business information off-site. Most of our information systems are centrally located at our headquarters, with offsite backup at other locations. Our systems, if not functioning properly, could disrupt our ability to track, record and analyze sales and inventory movement and could cause disruptions of operations, including, among other things, our ability to process and ship inventory, process financial information including credit card transactions, process payrolls or vendor payments or engage in other similar normal business activities. Although we attempt to mitigate the risk of possible business interruptions, any material disruption, malfunction or any other similar problem in or with our information systems could negatively impact our financial results and materially adversely affect our business operations.

Pressure from our competitors may force us to reduce our prices or increase our spending, which would lower our net sales and operating income.

The business in which we are engaged is highly competitive. The marketplace for sporting goods is highly fragmented as many different retailers compete for market share by utilizing a variety of store formats and merchandising strategies. We compete with local sporting goods stores, department and discount stores, traditional shoe stores and mass merchandisers and, on a limited basis, national sporting goods stores. Many of our competitors have greater financial resources than we do. In addition, many of our competitors employ price discounting policies that, if intensified, may make it difficult for us to reach our sales goals without reducing our prices. As a result of this competition, we may also need to spend more on advertising and promotion than we anticipate. We cannot guarantee that we will continue to be able to compete successfully against existing or future competitors. Expansion into markets served by our competitors, entry of new competitors or expansion of existing competitors into our markets could be detrimental to our business, financial condition and results of operations.

Our operating results are subject to seasonal and quarterly fluctuations. Furthermore, our quarterly operating results, including comparable store net sales, will fluctuate and may not be a meaningful indicator of future performance.

We have historically experienced and expect to continue to experience seasonal fluctuations in our net sales, operating income and net income. Our net sales, operating income and net income are typically higher in the spring, back-to-school and holiday shopping seasons. An economic downturn during these periods could adversely affect us to a greater extent than if a downturn occurred at other times of the year.

Customer buying patterns around the spring sales period and the holiday season historically result in higher first and fourth quarter net sales. In the past few years, we have also experienced higher than historical third quarter net sales resulting from the back-to-school period complimented by sales tax holidays in many of our markets. In addition, our quarterly results of operations may fluctuate significantly as a result of a variety of factors, many outside our control, including the timing of new store openings, the amount and timing of net sales contributed by new stores, merchandise mix, demand for apparel and accessories driven by local interest in sporting events, the demise of sports superstars key to certain product promotions or strikes or lockouts involving professional sports teams. Any of these events, particularly in the fourth quarter, could have a material adverse effect on our business, financial condition and operating results for the entire fiscal year.

Comparable store net sales vary from quarter to quarter, and an unanticipated decline in comparable store net sales may cause the price of our common stock to fluctuate significantly. Factors which have historically affected, and will continue to affect our comparable store net sales results, include:

- shifts in consumer tastes and fashion trends;
- calendar shifts of holiday or seasonal periods;
- the timing of income tax refunds to customers;
- calendar shifts or cancellations of sales tax-free holidays in certain states;
- the success or failure of college and professional sports teams within our core regions;
- changes in the other tenants in the shopping centers in which we are located;
- pricing, promotions or other actions taken by us or our existing or possible new competitors; and
- unseasonable weather conditions or natural disasters.

We cannot assure you that comparable store net sales will trend at the rates achieved in prior periods or that rates will not decline.

New stores may also affect our net sales through the timing of new store openings and the relative proportion of new stores to mature stores, the level of pre-opening expenses associated with new stores and the amount and timing of net sales contributed by new stores.

We would be materially and adversely affected if our single distribution center were shut down.

We currently operate a single centralized distribution center in Birmingham, Alabama. We receive and ship substantially all of our merchandise at our distribution center. Any natural disaster or other serious disruption to this facility due to fire, tornado or any other cause would damage a portion of our inventory and could impair our ability to adequately stock our stores and process returns of products to vendors and could adversely affect our net sales and profitability. In addition, we could incur significantly higher costs and longer lead times associated with distributing our products to our stores during the time it takes for us to reopen or replace the center.

Failure to adequately plan and manage the relocation of our corporate headquarters and distribution center may interrupt our operations and lower our operating income.

The lease on our corporate headquarters and distribution facility expires in December 2014. Currently, our distribution center is centrally managed from our corporate headquarters, which is located in the same building as our distribution center. Our plans are to separate our corporate headquarters and distribution facility and to move each from its current location. The planned move entails risk that could cause delays and cost overruns, such as: shortages of materials; shortages of skilled labor or work stoppages; unforeseen construction, scheduling, engineering, environmental or geological problems; weather interferences or other casualty losses; and unanticipated cost increases. There is also the risk that we will not adequately adjust our business processes or appropriately manage our

work force during the transition. Failure to adequately plan and manage the relocation efforts could cause a disruption in our operations and lower our operating income.

We depend on key personnel, the loss of which may adversely affect our ability to run our business effectively and our results of operations.

We have benefited from the leadership and performance of our senior management, especially Michael J. Newsome, our Executive Chairman and former Chief Executive Officer. If we lose the services of any of our principal executive officers or Mr. Newsome, we may not be able to run our business effectively and operating results could suffer. In particular, Mr. Newsome has been instrumental in directing our business strategy and maintaining long-term relationships with our key vendors.

In March 2005, we entered into a Retention Agreement (the Agreement) with Mr. Newsome. The purpose of the Agreement is to secure the continued employment of Mr. Newsome as an advisor to us following his future retirement from the duties of Chief Executive Officer of our Company. Although, Mr. Newsome stepped down as Chief Executive Officer in March 2010, he is actively involved in the daily operations of our Company and his retirement is not currently planned.

The Compensation Committee of our Board of Directors reviews a succession plan prepared by senior management in consideration of the loss of other key personnel positions on a bi-annual basis. The goal of the succession plan is to have a contingency plan that minimizes disruptions in the workplace until a suitable replacement can be found. On January 30, 2012, Gary A. Smith, our Chief Financial Officer, announced his retirement effective June 1, 2012. We have commenced a search for his replacement with the goal of ensuring a smooth and orderly transition.

Provisions in our charter documents and Delaware law might deter acquisition bids for us.

Certain provisions of our certificate of incorporation and bylaws may be deemed to have anti-takeover effects and may discourage, delay or prevent a takeover attempt that a stockholder might consider in its best interest. These provisions, among other things:

- classify our Board of Directors into three classes, each of which serves for different three-year periods;
- provide that a director may be removed by stockholders only for cause by a vote of the holders of not less than two-thirds of our shares entitled to vote;
- provide that all vacancies on our Board of Directors, including any vacancies resulting from an increase in the number of directors, may be filled by a majority of the remaining directors, even if the number is less than a quorum;
- provide that special meetings of the common stockholders may only be called by the Board of Directors, the Chairman of the Board of Directors or upon the demand of the holders of a majority of the total voting power of all outstanding securities of the Company entitled to vote at any such special meeting; and
- call for a vote of the holders of not less than two-thirds of the shares entitled to vote in order to amend the foregoing provisions and certain other provisions of our certificate of incorporation and bylaws.

In addition, our Board of Directors, without further action of the stockholders, is permitted to issue and fix the terms of preferred stock, which may have rights senior to those of common stock. We are also subject to the Delaware business combination statute, which may render a change in control of us more difficult. Section 203 of the Delaware General Corporation Laws would be expected to have an anti-takeover effect with respect to transactions not approved in advance by the Board of Directors, including discouraging takeover attempts that might result in a premium over the market price for the shares of common stock held by stockholders.

Increases in transportation costs due to rising fuel costs, climate change regulation and other factors may negatively impact our results of operations.

We rely upon various means of transportation, including ship and truck, to deliver products from vendors to our distribution center and from our distribution center to our stores. Consequently, our results can vary depending upon the price of fuel. The price of oil has fluctuated drastically over the last few years, and has recently increased again, which has increased our fuel costs. In addition, efforts to combat climate change through reduction of greenhouse gases may result in higher fuel costs through taxation or other means. Any such future increases in fuel costs would increase our transportation costs for delivery of product to our distribution center and distribution to our stores, as well as our vendors' transportation costs, which could adversely affect our results of operations.

In addition, labor shortages in the transportation industry could negatively affect transportation costs and our ability to supply our stores in a timely manner. In particular, our business is highly dependent on the trucking industry to deliver products to our distribution center and our stores. Our operating results may be adversely affected if we or our vendors are unable to secure adequate trucking resources at competitive prices to fulfill our delivery schedules to our distribution center or our stores.

We manage cash and cash equivalents beyond federally insured limits per financial institution and purchase investments not fully guaranteed by the Federal Deposit Insurance Corporation (FDIC), subjecting us to investment and credit availability risks.

We manage cash and cash equivalents in various institutions at levels beyond federally insured limits per institution, and we purchase investments not guaranteed by the FDIC. Accordingly, there is a risk that we will not recover the full principal of our investments or that their liquidity may be diminished. In an attempt to mitigate this risk, our investment policy emphasizes preservation of principal and liquidity. With the current financial environment and the instability of financial institutions, we cannot be assured that we will not experience losses on our deposits.

We face risk that financial institutions may fail to fulfill commitments under our committed credit facilities.

We have financial institutions that are committed to providing loans under our revolving credit facilities. With the current financial environment and the instability of financial institutions, there is a risk that these institutions cannot deliver against these obligations in a timely matter, or at all. If the financial institutions that provide these credit facilities were to default on their obligation to fund the commitments, these facilities would not be available to us, which could adversely affect our liquidity and financial condition. For discussion of our credit facilities, see “Liquidity and Capital Resources” in Item 7 and Note 5 to our consolidated financial statements.

Risks Related to Ownership of Our Common Stock.

The market price of our common stock, like the stock market in general, is likely to be highly volatile. Factors that could cause fluctuation in our common stock price may include, among other things:

- actual or anticipated variations in quarterly operating results;
- changes in financial estimates by investment analysts and our inability to meet or exceed those estimates;
- additions or departures of key personnel;
- market rumors or announcements by us or by our competitors of significant acquisitions, divestitures or joint ventures, strategic partnerships, large capital commitments or other strategic initiatives; and
- sales of our common stock by key personnel or large institutional holders.

Many of these factors are beyond our control and may cause the market price of our common stock to decline, regardless of our operating performance.

Risks Related to Regulatory, Legislative and Legal Matters.

We operate in a number of jurisdictions. It can be cumbersome to fill needed positions and comply with labor laws and regulations, many of which vary from jurisdiction to jurisdiction.

We are heavily dependent upon our labor force. We attempt to attract and retain an appropriate level of personnel in both field operations and corporate functions. Our compensation packages are designed to provide benefits commensurate with our level of expected service. However, within our retail and our distribution operations, we face the challenge of filling many positions at wage scales that are appropriate to the industry and competitive factors. We operate in a number of jurisdictions which can make it cumbersome to comply with labor laws and regulations, many of which vary from jurisdiction to jurisdiction. As a result of these and other factors, we face many external risks and internal factors in meeting our labor needs, including competition for qualified personnel, overall unemployment levels, prevailing wage rates, as well as rising employee benefit costs, including insurance costs and compensation programs. We also engage third parties in some of our process such as delivery and transaction processing and these providers may face similar issues. Changes in any of these factors, including a shortage of available workforce in areas in which we operate, could interfere with our ability to adequately service our customers or to open suitable locations and could result in increasing labor costs.

We cannot be assured that we will not experience pressure from labor unions or become the target of labor union campaigns.

While we believe we maintain good relations with our employees, we cannot be assured that we will not experience pressure from labor unions or become the target of labor union campaigns. The potential for unionization could increase in the United States if Congress passes federal legislation that would facilitate labor organization. The unionization of a significant portion of our workforce could increase our overall costs at the affected locations and

adversely affect our flexibility to run our business in the most efficient manner to remain competitive or acquire new business. In addition, significant union representation would require us to negotiate wages, salaries, benefits and other terms with many of our employees collectively and could adversely affect our results of operations by increasing our labor costs or otherwise restricting our ability to maximize the efficiency of our operations.

Changes in federal, state or local law, or our failure to comply with such laws, could increase our expenses and expose us to legal risks.

While businesses are subject to regulatory matters relating to the conduct of their business, including consumer protection laws, consumer credit privacy acts, product safety regulations, advertising regulations, zoning and land use regulations, sales and use tax laws, wage and hour regulations, workplace safety regulations, environmental laws (including measures related to climate change, greenhouse gas emissions, soil and groundwater contamination and disposal of waste and hazardous materials) and the like, certain jurisdictions have taken a particularly aggressive stance with respect to such matters and have stepped up enforcement, including fines and other sanctions. An increasing regulatory environment could expose us to a challenging enforcement environment or to third-party liability (such as monetary recoveries and recoveries of attorneys fees) and could have a material adverse affect on our business and results of operations, including the added cost of increased preventative measures that we may determine to be necessary to conduct our business in certain locales.

Our in-house legal department monitors regulatory activity and is active in notifying and updating applicable departments and personnel on pertinent matters and legislation. Our Human Resources Department also leads compliance training programs with our operations team to ensure our field managers are kept abreast of regulatory activity that affects their areas of responsibility. We believe that we are in substantial compliance with applicable environment and other laws and regulations, and although no assurance can be given, we do not foresee the need for any significant expenditure in this area in the near future.

Changes in rules related to accounting for income taxes, changes in tax laws in any of the jurisdictions in which we operate or adverse outcomes from audits by taxing authorities could result in an unfavorable change in our effective tax rate.

We operate our business in several tax jurisdictions. As a result, our effective tax rate is derived from a combination of the federal rate and applicable tax rates in the various states in which we operate. Our effective tax rate may be lower or higher than our tax rates have been in the past due to numerous factors, including the sources of our income and the tax filing positions we take. We base our estimate of an effective tax rate at any given point in time upon a calculated mix of the tax rates applicable to our Company and to estimates of the amount of business likely to be done in any given jurisdiction. Changes in rules related to accounting for income taxes, changes in tax laws in any of the jurisdictions in which we operate or adverse outcomes from tax audits that we may be subject to in any of the jurisdictions in which we operate could result in an unfavorable change in our effective tax rate.

Litigation may adversely affect our business, financial condition and results of operations.

Our business is subject to the risk of litigation by employees, consumers, suppliers, competitors, stockholders, government agencies or others through private actions, class actions, administrative proceedings, regulatory actions or other litigation. The outcome of litigation, particularly class action lawsuits and regulatory actions, is difficult to assess or quantify. We may incur losses relating to these claims, and in addition, these proceedings could cause us to incur costs and may require us to devote resources to defend against these claims that could adversely affect our results of operations. For a description of current legal proceedings, see "Part I, Item 3, Legal Proceedings."

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

We currently lease all of our existing 832 store locations and expect that our policy of leasing rather than owning will continue as we continue to expand. Our leases typically provide for terms of five to ten years with options on our part to extend. Most leases also contain a kick-out clause if projected sales levels are not met and an early termination/remedy option if co-tenancy and exclusivity provisions are violated. We believe this leasing strategy enhances our flexibility to pursue various expansion opportunities resulting from changing market conditions and to periodically re-evaluate store locations. Our ability to open new stores is contingent upon locating satisfactory sites, negotiating acceptable leases, recruiting and training qualified management personnel and the availability of market relevant inventory.

As current leases expire, we believe we will either be able to obtain lease renewals for present store locations or to obtain leases for equivalent or better locations in the same general area. Historically, we have not experienced any significant difficulty in either renewing leases for existing locations or securing leases for suitable locations for new stores. Beginning in Fiscal 2010, we had difficulty securing leases for new stores related to new construction due to the economic issues facing the commercial real estate market and landlords, thus reducing our ability to open stores at

our historical rates. This trend continued into Fiscal 2011, but improved to some extent in Fiscal 2012. Based primarily on our belief that we maintain good relations with our landlords, that most of our leases are at approximate market rents and that generally we have been able to secure leases for suitable locations, we believe our lease strategy will not be detrimental to our business, financial condition or results of operations. We believe we will be able to continue to accelerate our new store growth in Fiscal 2013 from Fiscal 2012 by negotiating acceptable leases for suitable locations left vacant by recent closings of franchised and entertainment-related businesses.

Our corporate offices and our distribution center are leased under an operating lease. We own the Team facility located in Birmingham, Alabama that warehouses inventory for educational institutions and youth associations. We believe our current distribution center is suitable and adequate to support our needs in the next few years. The lease for our corporate offices and distribution center expires in December 2014 and we are currently planning to build a new facility and move our corporate offices. See “Risk Factors.”

Store Locations

As of January 28, 2012, we operated 832 stores in 26 contiguous states. Of these stores, 203 are located in enclosed malls and 629 are located in strip-shopping centers, which are typically influenced by a Wal-Mart store. Strip-shopping centers include free-standing stores. The following shows the number of locations by state as of January 28, 2012:

| | | | | | |
|----------|----|----------------|----|----------------|-----|
| Alabama | 83 | Kansas | 21 | Oklahoma | 40 |
| Arizona | 6 | Kentucky | 43 | South Carolina | 32 |
| Arkansas | 41 | Louisiana | 43 | South Dakota | 1 |
| Colorado | 5 | Missouri | 26 | Tennessee | 56 |
| Florida | 39 | Mississippi | 60 | Texas | 83 |
| Georgia | 89 | Nebraska | 6 | Virginia | 17 |
| Iowa | 8 | New Mexico | 11 | West Virginia | 10 |
| Illinois | 19 | North Carolina | 47 | Wisconsin | 7 |
| Indiana | 20 | Ohio | 19 | TOTAL | 832 |

As of March 16, 2012, we operated 829 stores in 26 states.

Item 3. Legal Proceedings.

We are a party to various legal proceedings incidental to our business. We do not believe that any of these matters will, individually or in the aggregate, have a material effect on our business or financial condition. We cannot give assurance, however, that one or more of these lawsuits will not have a material effect on our results of operations for the period in which they are resolved. It is reasonably possible that losses in addition to the amount accrued could be incurred. However, we cannot predict the outcome of these matters or make an estimate of the possible loss or range of loss based on the information currently available to the Company. At January 28, 2012, we estimate that the liability related to these matters is approximately \$0.3 million and accordingly, have accrued \$0.3 million as a current liability in our consolidated balance sheet. As of January 29, 2011, we had accrued \$0.4 million as it related to our estimated liability for legal proceedings.

The estimates of our liability for pending and unasserted potential claims do not include litigation costs. It is our policy to accrue legal fees when it is probable that we will have to defend against known claims or allegations and we can reasonably estimate the amount of the anticipated expense.

From time to time, we enter into certain types of agreements that require us to indemnify parties against third-party claims under certain circumstances. Generally, these agreements relate to: (a) agreements with vendors and suppliers under which we may provide customary indemnification to our vendors and suppliers in respect to actions they take at our request or otherwise on our behalf; (b) agreements to indemnify vendors against trademark and copyright infringement claims concerning merchandise manufactured specifically for or on behalf of the Company; (c) real estate leases, under which we may agree to indemnify the lessors from claims arising from our use of the property; and (d) agreements with our directors, officers and employees, under which we may agree to indemnify such persons for liabilities arising out of their relationship with us. We have director and officer liability insurance, which, subject to the policy's conditions, provides coverage for indemnification amounts payable by us with respect to our directors and officers up to specified limits and subject to certain deductibles.

If we believe that a loss is both probable and estimable for a particular matter, the loss is accrued in accordance with the requirements of ASC Topic 450, Contingencies. With respect to any matter, we could change our belief as to whether a loss is probable or estimable, or its estimate of loss, at any time.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock is traded on the NASDAQ Global Select Market (NASDAQ/GS) under the symbol HIBB. The following table sets forth, for the periods indicated, the high and low sales prices of shares of our Common Stock as reported by NASDAQ.

| Fiscal 2012: | High | Low |
|--|----------|----------|
| First Quarter ended April 30, 2011 | \$ 38.33 | \$ 29.83 |
| Second Quarter ended July 30, 2011 | \$ 43.00 | \$ 35.36 |
| Third Quarter ended October 29, 2011 | \$ 43.24 | \$ 31.03 |
| Fourth Quarter ended January 28, 2012 | \$ 49.87 | \$ 39.63 |

| | | |
|--|----------|----------|
| Fiscal 2011: | | |
| First Quarter ended May 1, 2010 | \$ 28.54 | \$ 20.77 |
| Second Quarter ended July 31, 2010 | \$ 28.58 | \$ 23.12 |
| Third Quarter ended October 30, 2010 | \$ 28.13 | \$ 22.09 |
| Fourth Quarter ended January 29, 2011 | \$ 39.84 | \$ 25.96 |

On March 16, 2012, the last reported sale price for our common stock as quoted by NASDAQ was \$52.57 per share. As of March 16, 2012, we had 21 stockholders of record.

The Stock Price Performance Graph below compares the percentage change in our cumulative total stockholder return on our common stock against a cumulative total return of the NASDAQ Composite Index and the NASDAQ Retail Trade Index. The graph below outlines returns for the period beginning on January 31, 2007 to January 31, 2012. We have not paid any dividends. Total stockholder return for prior periods is not necessarily an indication of future performance.

Dividend Policy. We have never declared or paid any dividends on our common stock. We currently intend to retain our future earnings to finance the growth and development of our business and for our stock repurchase program, and therefore do not anticipate declaring or paying cash dividends on our common stock for the foreseeable future. Any future decision to declare or pay dividends will be at the discretion of our Board of Directors and will be dependent upon our financial condition, results of operations, capital requirements and such other factors as our Board of Directors deems relevant.

Equity Compensation Plans. For information on securities authorized for issuance under our equity compensation plans, see “Part III, Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.”

Issuer Repurchases of Equity Securities

The following table presents our shares repurchase activity for the thirteen weeks ended January 28, 2012 (1):

| Period | Total Number of Shares Purchased | Average Price per Share | Total Number of Shares Purchased as Part of Publicly Announced Programs | Approximate Dollar Value of Shares that may yet be Purchased Under the Programs (in thousands) |
|---|---|-------------------------------|--|--|
| October 30, 2011 to November 26, 2011 | 80,900 | \$ 43.06 | 80,900 | \$ 151,280 |
| November 27, 2011 to December 31, 2011 | 87,470 | \$ 45.33 | 87,470 | \$ 147,315 |
| January 1, 2012 to January 28, 2012 | 56,800 | \$ 46.80 | 56,800 | \$ 144,657 |
| Total | 225,170 | \$ 44.88 | 225,170 | \$ 144,657 |

(1) In November 2009, the Board of Directors authorized a Stock Repurchase Program (Program) of \$250.0 million to repurchase our common stock through February 2, 2013. The Program replaced an existing plan that was adopted in August 2004, which was to expire in January 2010 and for which the maximum authorization was \$250.0 million. See Note 1, “Stock Repurchase Program,” on page 38.

Item 6. Selected Consolidated Financial Data.

The following selected consolidated financial data has been derived from the consolidated financial statements of the Company. The data set forth below should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our “Consolidated Financial Statements and Supplementary Data” and “Notes to Consolidated Financial Statements” thereto.

| (In thousands, except per share amounts and Selected Operating Data) | | | | | |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| Fiscal Year Ended | | | | | |
| | January 28, 2012 | January 29, 2011 | January 30, 2010 | January 31, 2009 | February 2, 2008 |
| Income Statement Data: | | | | | |
| Net sales | \$732,645 | \$664,954 | \$593,492 | \$564,188 | \$520,720 |
| Cost of goods sold, including distribution center and store occupancy costs | 470,237 | 434,552 | 397,292 | 378,817 | 351,876 |
| Gross profit | 262,408 | 230,402 | 196,200 | 185,371 | 168,844 |
| Store operating, selling and administrative expenses | 155,672 | 143,232 | 129,888 | 123,075 | 108,463 |
| Depreciation and amortization | 13,205 | 13,623 | 13,905 | 14,324 | 12,154 |
| Operating income | 93,531 | 73,547 | 52,407 | 47,972 | 48,227 |
| Interest income | (25) | (42) | (60) | (41) | (582) |
| Interest expense | 242 | 147 | 117 | 660 | 151 |
| Interest expense (income), net | 217 | 105 | 57 | 619 | (431) |
| Income before provision for income taxes | 93,314 | 73,442 | 52,350 | 47,353 | 48,658 |
| Provision for income taxes | 34,254 | 27,042 | 19,801 | 17,905 | 18,329 |
| Net income | \$59,060 | \$46,400 | \$32,549 | \$29,448 | \$30,329 |
| Earnings per common share: | | | | | |
| Basic | \$2.19 | \$1.63 | \$1.14 | \$1.03 | \$0.98 |
| Diluted | \$2.15 | \$1.60 | \$1.12 | \$1.02 | \$0.96 |
| Weighted average shares outstanding: | | | | | |
| Basic | 26,978 | 28,426 | 28,629 | 28,547 | 31,049 |
| Diluted | 27,506 | 29,033 | 29,089 | 28,954 | 31,525 |
| Balance Sheet Data: | | | | | |
| Working capital | \$177,115 | \$175,007 | \$147,583 | \$107,055 | \$89,383 |
| Total assets | \$313,696 | \$314,265 | \$276,704 | \$235,087 | \$216,734 |
| Long-term capital lease obligations | \$2,072 | \$2,245 | \$152 | \$- | \$- |
| Stockholders' investment | \$203,750 | \$200,088 | \$175,079 | \$136,575 | \$119,055 |
| Selected Operating Data: | | | | | |
| Number of stores open at end of period: | | | | | |
| Hibbett Sports | 812 | 779 | 747 | 723 | 666 |
| Sports & Co. | 1 | 3 | 4 | 4 | 4 |

Edgar Filing: HIBBETT SPORTS INC - Form 10-K

| | | | | | |
|------------------|-----|-----|-----|-----|-----|
| Sports Additions | 19 | 16 | 16 | 18 | 18 |
| Total | 832 | 798 | 767 | 745 | 688 |

Note: No dividends have been declared or paid.

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

The following discussion and analysis should be read in conjunction with Item 6, "Selected Consolidated Financial Data" and our consolidated financial statements and related notes appearing elsewhere in this report. This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. See "Forward-Looking Statements" and Part I, Item 1A, "Risk Factors".

Overview

Hibbett Sports, Inc. operates sporting goods stores in small to mid-sized markets, predominantly in the Southeast, Southwest, Mid-Atlantic and Midwest regions of the United States. We believe Hibbett Sports stores are typically the primary sporting goods retailers in their markets due to the extensive selection of quality brand name merchandise and a high level of customer service. As of January 28, 2012, we operated a total of 832 retail stores in 26 states composed of 812 Hibbett Sports stores, 19 Sports Additions athletic shoe stores and 1 Sports & Co. superstore.

Our primary retail format and growth vehicle is Hibbett Sports, a 5,000-square-foot store located primarily in strip centers, which are usually influenced by a Wal-Mart store. Approximately 77% of our Hibbett Sports store base is located in strip centers, which includes free-standing stores, while approximately 23% of our Hibbett Sports store base is located in enclosed malls. Over the last several years, we have concentrated and expect to continue our store base growth in strip centers versus enclosed malls. We do not expect that the average size of our stores opening in Fiscal 2013 will vary significantly from the average size of stores opened in Fiscal 2012.

The volatile global economic conditions experienced in Fiscal 2010 improved somewhat in Fiscal 2011 and Fiscal 2012, and we saw an increase in comparable store and total net sales. We were able to further enhance net income through continued effective management of expenses. In Fiscal 2011 and Fiscal 2012, footwear and apparel experienced strong comparable store sales gains. In Fiscal 2012, footwear and apparel experienced mid-single digit comparable store sales increases. Apparel sales were led by double-digit gains in activewear.

We historically have increases in comparable store net sales in the low to mid-single digit range. Fiscal 2012 experienced a total company-wide square footage increase of 4.3%. Our plan for Fiscal 2013 is to increase total company-wide square footage over 5%, which is at the lower end of our historical range of 3% to 12% but an improvement from the last two fiscal year square footage increases. To supplement new store openings, we continue to expand high performing stores, increasing the square footage in 15 existing stores in Fiscal 2012. Generally, our expansions involve an increase in square footage of 40% to 50%. We expect to expand an additional 15 stores in Fiscal 2013. Total comparable store sales percentage growth is expected to be in the low to mid-single digits in Fiscal 2013. Over the past several years, we have increased our gross profit through improved vendor discounts, fewer retail price reductions and increased efficiencies in logistics. We expect an improvement in gross profit rate in Fiscal 2013 as we continue to benefit from improved inventory age year over year and increased efficiencies from our investment in systems.

In Fiscal 2012, we began an active search for a new distribution facility or site to support our expected growth over the next several years with an expected operations date in mid Fiscal 2015. We plan to build and own our new facility versus lease and expect that the new facility will cost approximately \$25.0 million.

Although the macroeconomic environment has presented many challenges in the last three years, our management believes that our business fundamentals remain strong and that we are well-positioned for the future. We are a leader in the markets in which we compete and we will continue to benefit from our comparatively low operating costs compared to the costs of our competitors. We continue to manage our costs and inventories prudently as dictated by the current economic environment, and we intend to continue to invest in initiatives to prepare our infrastructure for

continued long-term growth.

Our management expects that the uncertainty and volatility of global economic conditions experienced over the last three years will continue. Any further negative impact on customer discretionary spending could negatively impact our net sales and level of profitability in Fiscal 2013.

Due to our increased net sales, we have historically leveraged our store operating, selling and administrative expenses. Based on projected net sales, we expect operating, selling and administrative rates to increase slightly in Fiscal 2013, primarily due to investments in technology. We also expect to continue to generate sufficient cash to enable us to expand and remodel our store base, to provide capital expenditures for both distribution center and technology upgrade projects and to repurchase our common stock under our stock repurchase program.

We utilize a merchandise management system that allows us to identify and monitor trends. However, this system does not produce U.S. Generally Accepted Accounting Principles (U.S. GAAP) financial information by product category. Therefore, it is impracticable to provide U.S. GAAP net sales by product category.

Hibbett operates on a 52- or 53-week fiscal year ending on the Saturday nearest to January 31 of each year. The consolidated statements of operations for Fiscal 2012, Fiscal 2011 and Fiscal 2010 included 52 weeks of operations. Fiscal 2013 will include 53 weeks of operations. We have operated as a public company and have been incorporated under the laws of the State of Delaware since October 6, 1996.

Comparable store net sales data for the periods presented reflects sales for our traditional format Hibbett Sports and Sports Additions stores open throughout the period and the corresponding period of the prior fiscal year. If a store remodel, relocation or expansion results in the store being closed for a significant period of time, its sales are removed from the comparable store base until it has been open a full 12 months. Our Sports & Co. store is not and has never been included in the comparable store net sales comparison because we have not opened a superstore since September 1996 and we do not have plans to open additional superstores in the future.

Executive Summary

Following is a highlight of our financial results over the last three fiscal years:

| | Fiscal 2012 | Fiscal 2011 | Fiscal 2010 |
|--|----------------|----------------|----------------|
| Net sales (in millions) | \$ 732.6 | \$ 665.0 | \$ 593.5 |
| Operating income, percentage to net sales | 12.8 % | 11.1 % | 8.8 % |
| Comparable store sales increase | 6.8 % | 9.8 % | 0.7 % |
| Net income (in millions) | \$ 59.1 | \$ 46.4 | \$ 32.5 |
| Net income, percentage increase | 27.3 % | 42.6 % | 10.5 % |
| Diluted earnings per share | \$ 2.15 | \$ 1.60 | \$ 1.12 |

During Fiscal 2012, Hibbett opened 52 new stores and closed 18 underperforming stores, bringing the store base to 832 in 26 states as of January 28, 2012. Inventory on a per store basis at January 28, 2012 increased by 7.0%; however, there was an improvement in aged merchandise compared to January 29, 2011. Hibbett ended the fiscal year with \$55.1 million of available cash and cash equivalents on the consolidated balance sheet and full availability under its \$80.0 million unsecured credit facilities.

Recent Accounting Pronouncements

See Note 2 of Item 8 of this Annual Report on Form 10-K for the fiscal year ended January 28, 2012, for information regarding recent accounting pronouncements.

Results of Operations

The following table sets forth the percentage relationship to net sales of certain items included in our consolidated statements of operations for the periods indicated.

| | Fiscal Year Ended | | |
|-----------|------------------------|------------------------|------------------------|
| | January 28, 2012 | January 29, 2011 | January 30, 2010 |
| Net sales | 100.0 % | 100.0 % | 100.0 % |

| | | | |
|---|------|------|------|
| Costs of goods sold, including distribution and store occupancy costs | 64.2 | 65.3 | 66.9 |
| Gross profit | 35.8 | 34.7 | 33.1 |
| Store operating, selling and administrative expenses | 21.2 | 21.5 | 21.9 |
| Depreciation and amortization | 1.8 | 2.1 | 2.3 |
| Operating income | 12.8 | 11.1 | 8.8 |
| Interest income | - | - | - |
| Interest expense | - | - | - |
| Interest (expense) income, net | - | - | - |
| Income before provision for income taxes | 12.7 | 11.1 | 8.8 |
| Provision for income taxes | 4.7 | 4.1 | 3.3 |
| Net income | 8.1 | 7.0 | 5.5 |

Note: Columns may not sum due to rounding.

Fiscal 2012 Compared to Fiscal 2011

Net sales. Net sales increased \$67.7 million, or 10.2%, to \$732.6 million for Fiscal 2012 from \$665.0 million for Fiscal 2011. Furthermore:

- We opened 49 Hibbett Sports stores and 3 Sports Addition stores while closing 17 underperforming Hibbett Sports stores and 1 Sports & Co. stores for net stores opened of 34 stores in Fiscal 2012. We expanded or remodeled 18 high performing stores and converted 1 Sports & Co. store to a Hibbett Sports store. New stores and stores not in the comparable store net sales calculation accounted for \$24.9 million of the increase in net sales. Store openings and closings are reported net of relocations.
- We experienced a 6.8% increase in comparable store net sales for Fiscal 2012 compared to Fiscal 2011. Higher comparable store net sales contributed \$42.8 million to the increase in net sales.

During Fiscal 2012, 762 stores were included in the comparable store sales comparison. The increase in comparable store net sales was broad-based with strong performances across footwear, equipment, apparel and accessories. Strong product performances were led by positive trends in all categories of activewear and in accessories, footwear, and licensed apparel. Lightweight running shoes continue to be a key driver in our footwear business while kid's footwear was particularly strong in Fiscal 2012. The majority of our comparable store sales increase was from increased consumer traffic and somewhat from increased retail prices. Strip locations continue to outperform enclosed mall stores. Strip center locations now comprise approximately 77% of our total store base and include free-standing store locations.

Gross profit. Cost of goods sold includes the cost of inventory, occupancy costs for stores and occupancy and operating costs for the distribution center. Gross profit was \$262.4 million, or 35.8% of net sales, in Fiscal 2012, compared with \$230.4 million, or 34.7% of net sales, in Fiscal 2011.

- Gross profit percentage was impacted by a higher percentage of merchandise sold at regular price and fewer company-wide promotions. Gross profit percentage also benefited from an improvement in inventory shrinkage year over year. Strong sales performance and improved aged inventory negated the need for liquidating promotions and more favorable discounts from vendors resulted in higher initial sell-through of inventory at regular prices. As more of our technology investments for inventory management are implemented, we expect to continue to see improvement in our gross profit percentage.
- Distribution expense as a percentage of net sales increased 8 basis points resulting primarily from increases in data processing third-party services. In Fiscal 2012, we initiated broadband service in over 95% of our existing stores. We also experienced an increase in freight costs due to higher gas prices. We expect to see increases in this expense line into Fiscal 2013 based on the current volatility in the oil markets and unrest in the Middle East.
 - Store occupancy expense as a percentage of net sales decreased 45 basis points. The largest decrease as a percent to net sales was rent expense as we continue to experience rent savings through lease renegotiations and from co-tenancy violations by our landlords, offset somewhat by a decrease in construction allowances used to offset rent expense. We believe we are a valued tenant for our landlords, which enhances our ability to renegotiate lease terms at renewal, and we have had success over the last few years in doing so as our landlords are struggling to keep their properties occupied. We expect to continue to experience rent savings through lease renegotiations into Fiscal 2013.

Store operating, selling and administrative expenses. Store operating, selling and administrative expenses were \$155.7 million, or 21.2% of net sales, for Fiscal 2012, compared with \$143.2 million, or 21.5% of net sales, for Fiscal 2011. Expense trends we experienced included:

-

Salary and benefit costs in our stores remained relatively constant as a percentage of net sales, but increased in dollars, primarily from annual pay rate increases and incentive payments associated with higher sales as well as with the growth in stores. As our store base grows, we expect an increase in salary and benefit dollars, but believe these costs as a percentage to net sales will remain relatively stable.

- Salary and benefit costs decreased at the administrative level by 22 basis points as a percentage of net sales primarily due to a decrease in the accrual for annual bonuses and a decrease in hospital insurance resulting from lower claims. We expect hospital insurance costs will increase in Fiscal 2013.
- Business insurance was lower due to lower actual claims and a decrease in casualty and workers' compensation insurance premium expense.
- Recent trends of increasing credit card processing fees slowed this year as we realized the benefit of lower debit card processing exchange rates.

Depreciation and amortization. Depreciation and amortization as a percentage of net sales was 1.8% in Fiscal 2012, and 2.1% in Fiscal 2011. The average lease term of new store leases added in Fiscal 2012 compared to those added in Fiscal 2011 increased to 8.06 years compared to 7.85 years, respectively, as the result of the execution of more leases with longer initial lease terms in Fiscal 2012 compared to Fiscal 2011. We attribute the decrease in depreciation expense as a percent of net sales to a decrease in the investment in leasehold improvements in recent years as more of the build-out work is being done by landlords offset somewhat by changes in estimates of useful lives of leasehold improvements in some underperforming stores.

Provision for income taxes. Provision for income taxes as a percentage of net sales was 4.7% in Fiscal 2012, compared to 4.1% for Fiscal 2011. This increase was primarily due to operating efficiencies achieved resulting in higher pre-tax income as a percentage of net sales. The combined federal, state and local effective income tax rate as a percentage of pre-tax income was 36.7% for Fiscal 2012 and 36.8% for Fiscal 2011. The decrease in rate resulted primarily from an increase in employment-related income tax credits and the resolution of an income tax matter with a state taxing authority.

Fiscal 2011 Compared to Fiscal 2010

Net sales. Net sales increased \$71.5 million, or 12.0%, to \$665.0 million for Fiscal 2011, from \$593.5 million for Fiscal 2010. Furthermore:

- We opened 45 Hibbett Sports stores while closing 13 underperforming Hibbett Sports stores and 1 Sports & Co. store for net stores opened of 31 stores in Fiscal 2011. We expanded or remodeled 17 high performing stores. New stores and stores not in the comparable store net sales calculation accounted for \$17.2 million of the increase in net sales. Store openings and closings are reported net of relocations.
- We experienced a 9.8% increase in comparable store net sales for Fiscal 2011 compared to Fiscal 2010. Higher comparable store net sales contributed \$54.3 million to the increase in net sales.

During Fiscal 2011, 705 stores were included in the comparable store sales comparison. The increase in comparable store net sales was broad-based with strong performances across footwear, equipment, apparel and accessories. Strong product performances were led by positive trends in accessories, licensed apparel, activewear, all categories of footwear and equipment. Strip locations continue to outperform enclosed mall stores. Strip center locations comprised approximately 76% of our total store base and include free-standing store locations.

Gross profit. Cost of goods sold included the cost of inventory, occupancy costs for stores and occupancy and operating costs for the distribution center. Gross profit was \$230.4 million, or 34.7% of net sales, in Fiscal 2011, compared with \$196.2 million, or 33.1% of net sales, in Fiscal 2010. The increase in gross profit percent was due primarily to a higher percentage of merchandise sold at regular price and fewer promotions. Distribution expense as a percentage of net sales decreased 19 basis points primarily due to basis point decreases in salary and benefit costs compared to a year ago. Store occupancy expense as a percentage of net sales decreased 67 basis points. The largest decrease was rent expense as a percentage of net sales as we continued to experience rent savings through lease renegotiations and from co-tenancy violations by our landlords, offset somewhat by a decrease in construction allowances used to offset rent expense.

Store operating, selling and administrative expenses. Store operating, selling and administrative expenses were \$143.2 million, or 21.5% of net sales, for Fiscal 2011, compared with \$129.9 million, or 21.9% of net sales, for Fiscal 2010. Expense trends we experienced included:

- Salary and benefit costs in our stores decreased by 45 basis points as a percentage of net sales, but increased in dollars, primarily from annual pay rate increases and incentive payments associated with higher sales. These

expenses increased at the administrative level by 12 basis points as a percentage of net sales primarily due to increases in accruals for bonuses.

- Legal fees, business insurance costs and professional fees were lower as we continued to closely monitor and carefully manage these costs.
- Credit and debit card fees increased as a percent to net sales due to higher exchange rates. Medical insurance costs increased as a result of increased enrollment coupled with a slight increase in actual claims. Third-party freight and shipping costs were also higher, primarily due to an increase in the total number of stores serviced.

Depreciation and amortization. Depreciation and amortization as a percentage of net sales was 2.1% in Fiscal 2011, and 2.3% in Fiscal 2010. The average lease term of new store leases added in Fiscal 2011 compared to those added in Fiscal 2010 increased to 7.85 years compared to 6.38 years, respectively, as the result of the execution of more leases with longer initial lease terms in Fiscal 2011 compared to Fiscal 2010. We attributed the decrease in depreciation expense as a percent of net sales to a decrease in the investment in leasehold improvements in recent years as more of the build-out work was being done by landlords offset somewhat by changes in estimates of useful lives of leasehold improvements in some underperforming stores.

Provision for income taxes. Provision for income taxes as a percentage of net sales was 4.1% in Fiscal 2011, compared to 3.3% for Fiscal 2010. This increase was primarily due to operating efficiencies achieved resulting in higher pre-tax income as a percentage of net sales. The combined federal, state and local effective income tax rate as a percentage of pre-tax income was 36.8% for Fiscal 2011 and 37.8% for Fiscal 2010. This decrease was primarily due to increased stock option exercise activity.

Liquidity and Capital Resources

Our capital requirements relate primarily to new store openings, stock repurchases and working capital requirements. Our working capital requirements are somewhat seasonal in nature and typically reach their peak near the end of the third and the beginning of the fourth quarters of our fiscal year. Historically, we have funded our cash requirements primarily through our cash flow from operations and occasionally from borrowings under our revolving credit facilities. Due to the low interest rates currently available, we are using excess cash on deposit to offset bank fees versus investing such funds in an equity market or in interest-bearing deposits.

Our consolidated statements of cash flows are summarized as follows (in thousands):

| | Fiscal Year Ended | | |
|--|---------------------|---------------------|---------------------|
| | January 28, 2012 | January 29, 2011 | January 30, 2010 |
| Net cash provided by operating activities | \$ 54,921 | \$ 61,918 | \$ 36,914 |
| Net cash used in investing activities | (13,375) | (10,883) | (9,603) |
| Net cash (used in) provided by financing activities | (61,925) | (25,209) | 1,730 |
| Net (decrease) increase in cash and cash equivalents | \$ (20,379) | \$ 25,826 | \$ 29,041 |

Operating Activities.

Cash flow from operations is seasonal in our business. Typically, we use cash flow from operations to increase inventory in advance of peak selling seasons, such as winter holidays and back-to-school. Inventory levels are reduced in connection with higher sales during the peak selling seasons and this inventory reduction, combined with proportionately higher net income, typically produces a positive cash flow. In recent years, we have experienced a trend of increasing free rent provisions in lieu of cash construction allowances in our leases. We believe this is primarily the result of the tightening of commercial credit on our landlords. Because of this, the non-cash portion of landlord allowances has also experienced increases.

Net cash provided by operating activities was \$54.9 million for Fiscal 2012 compared with net cash provided by operating activities of \$61.9 million and \$36.9 million in Fiscal 2011 and Fiscal 2010, respectively. The reduction in net cash provided by operating activities for Fiscal 2012 compared to Fiscal 2011 was primarily due to inventory levels, which have continued to increase year over year as the number of stores have increased, although the inventory per store has historically trended slightly down to flat.

- Ending inventory at January 28, 2012 was up 7.0% on a per store level compared to January 29, 2011 due primarily to a shift in product mix in advance of our strong spring selling season this year versus last year and, to a lesser degree, merchandise cost increases. The increase in inventory used cash of \$20.2 million, \$5.5 million and \$17.6 million during Fiscal 2012, Fiscal 2011 and Fiscal 2010, respectively. Although our inventory levels have increased at the store level over the last few years, our aged inventory is down.

- The change in accounts payable used cash of \$2.3 million during Fiscal 2012 and provided cash of \$11.0 million and \$0.5 million during Fiscal 2011 and Fiscal 2010, respectively. Beginning in Fiscal 2011, we started paying some of our vendors using corporate purchasing cards, which effectively extended our payment terms by one month. The fluctuation in cash provided by accounts payable between Fiscal 2011 and Fiscal 2012 resulted from the anniversary of the payment term extensions.
- Net income provided cash of \$59.1 million, \$46.4 million and \$32.5 million during Fiscal 2012, Fiscal 2011 and Fiscal 2010, respectively.
- Non-cash charges included depreciation and amortization expense of \$13.2 million, \$13.6 million and \$13.9 million during Fiscal 2012, Fiscal 2011 and Fiscal 2010, respectively, and stock-based compensation expense of \$5.5 million, \$4.8 million and \$4.2 million during Fiscal 2012, Fiscal 2011 and Fiscal 2010, respectively. The stock-based compensation increase resulted from the achievement of PSUs at greater than their granted level.

Investing Activities.

Cash used in investing activities in the fiscal periods ended January 28, 2012, January 29, 2011 and January 30, 2010 totaled \$13.4 million, \$10.9 million and \$9.6 million, respectively. Gross capital expenditures used \$13.0 million, \$10.5 million and \$9.6 million during Fiscal 2012, Fiscal 2011 and Fiscal 2010, respectively.

We use cash in investing activities to build new stores and remodel, expand or relocate existing stores. We opened 52 new stores and relocated, expanded and/or remodeled 18 existing stores during Fiscal 2012. We opened 45 new stores and relocated, expanded and/or remodeled 17 existing stores during Fiscal 2011. We opened 42 new stores and relocated, expanded and/or remodeled 21 existing stores during Fiscal 2010. Furthermore, net cash used in investing activities includes purchases of information technology assets and expenditures for our distribution facility and corporate headquarters.

We estimate the cash outlay for capital expenditures in the fiscal year ending February 2, 2013 will be approximately \$15.9 million, which relates to the opening of approximately 60 new stores, remodeling of selected existing stores, information system upgrades and various improvements at our headquarters and distribution center. Of the total budgeted dollars for capital expenditures for Fiscal 2013, we anticipate that approximately 55% will be related to the opening of new stores and remodeling and/or relocating existing stores. Approximately 34% will be related to information systems with the remaining 11% related primarily to transportation equipment, automobiles and security equipment for our stores. In addition, the lease for our existing distribution center expires in December 2014. We plan to build and own versus lease our new distribution facility at a cost of approximately \$25.0 million over the next 3 years.

As of January 28, 2012, we had approximately \$1.3 million outlay remaining on enhancements to our merchandising system relating to demand forecasting and markdown optimization. We believe these enhancements will further advance our ability to improve gross profit across all markets and merchandise by providing another tool for managing our inventory at the store level.

Financing Activities.

Net cash used in financing activities was \$61.9 million and \$25.2 million in Fiscal 2012 and Fiscal 2011, respectively, compared to net cash provided by financing activities of \$1.7 million in Fiscal 2010. The financing activity cash fluctuation between years is primarily the result of repurchases of our common stock. We expended \$67.5 million and \$37.7 million on repurchases of our common stock during Fiscal 2012 and Fiscal 2011, respectively. We did not repurchase any of our common stock during Fiscal 2010.

Financing activities also consisted of proceeds from stock option exercises and the excess tax benefit from the exercise of incentive stock options. As stock options are exercised, we will continue to receive proceeds and expect a tax deduction; however, the amounts and timing cannot be predicted.

At January 28, 2012, we had two unsecured revolving credit facilities that allow borrowings up to \$30.0 million and \$50.0 million, respectively, and which renew in August 2012 and November 2012, respectively. The facilities do not require a commitment or agency fee nor are there any covenant restrictions. We plan to renew these facilities as they expire and do not anticipate any problems in doing so; however, no assurance can be given that we will be granted a renewal or terms which are acceptable to us. As of January 28, 2012, we did not have any debt outstanding under either of these facilities.

At January 29, 2011, we had two unsecured revolving credit facilities that allowed borrowings up to \$30.0 million and \$50.0 million, respectively, and which renewed in August 2011 and November 2011, respectively. The facilities did not require a commitment or agency fee nor were there any covenant restrictions. We renewed these facilities as they expired. As of January 29, 2011, we did not have any debt outstanding under either of these facilities.

The following table lists the aggregate maturities of various classes of obligations and expiration amounts of various classes of commitments related to Hibbett Sports, Inc. at January 28, 2012 (in thousands):

| Contractual Obligations | Payment due by period | | | | Total |
|---|-----------------------|-------------|-------------|----------------------|------------|
| | Less than 1 year | 1 - 3 years | 3 - 5 years | More than 5 years | |
| Long-term debt obligations (1) | \$ - | \$ - | \$ - | \$ - | \$ - |
| Capital lease obligations (2) | 173 | 389 | 476 | 1,207 | 2,245 |
| Interest on capital lease obligations (2) | 193 | 343 | 273 | 236 | 1,045 |
| Operating lease obligations (2) | 43,374 | 62,956 | 29,576 | 16,828 | 152,734 |
| Purchase obligations (3) | 1,492 | 653 | 4 | - | 2,149 |
| Other liabilities (4) | 256 | - | - | 1,206 | 1,462 |
| Total | \$ 45,488 | \$ 64,341 | \$ 30,329 | \$ 19,477 | \$ 159,635 |

(1) See “Part II, Item 8, Consolidated Financial Statements Note 5 – Debt.”

(2) See “Part II, Item 8, Consolidated Financial Statements Note 6 – Leases.”

- (3) Purchase obligations include all material legally binding contracts such as software license commitments and service contracts. The table above also includes stand-by letters of credit in conjunction with our self-insured workers' compensation and general liability insurance coverage. Contractual obligations, including purchase orders for inventory, that are not binding agreements are excluded from the table above. Utility contracts, including waste disposal agreements, are also excluded.
- (4) Other liabilities include amounts accrued for various deferred compensation arrangements and the current portion of unrecognized tax benefits. See "Part II, Item 8, Consolidated Financial Statements Note 7 – Defined Contribution Benefit Plans" for a discussion regarding our employee benefit plans. Non-current liabilities, primarily consisting of deferred rent and unrecognized tax benefits, have been excluded from the above table to the extent that the timing and/or amount of any cash payment are uncertain. See "Part II, Item 8, Consolidated Financial Statements Note 1 – Deferred Rent" for a discussion on our deferred rent liabilities. See "Part II, Item 8, Consolidated Financial Statements Note 9 – Income Taxes" for a discussion of our unrecognized tax benefits.

Excluded from this table are approximately \$2.6 million of unrecognized tax benefits, which have been recorded as liabilities in accordance with ASC Topic 740, Income Taxes, as the timing of such payments cannot be reasonably determined.

Off-Balance Sheet Arrangements

We have not provided any financial guarantees as of January 28, 2012. We have not created, and are not party to, any special-purpose or off-balance sheet entities for the purpose of raising capital, incurring debt or operating our business. We do not have any arrangements or relationships with entities that are not consolidated into the financial statements.

Inflation and Other Economic Factors

Our ability to provide quality merchandise on a profitable basis may be subject to economic factors and influences that we cannot control. National or international events, including uncertainties in the global financial markets, U.S. government policies, the Middle East and Asia, could lead to disruptions in economies in the United States or in foreign countries where a significant portion of our merchandise is manufactured. These and other factors could increase our merchandise costs and other costs that are critical to our operations. Consumer spending could also decline because of economic pressures.

We do not believe that inflation has had a material impact on our financial position or results of operations to date. However, we are experiencing increased prices and a high rate of inflation in the future may have an adverse effect on our ability to maintain current levels of gross profit and selling, general and administrative expenses as a percentage of net sales if the selling prices of our merchandise do not increase with these increased costs. Based on current economic conditions, we expect that any increase in merchandise costs per unit will be offset by improved vendor discounts and increased retail prices in Fiscal 2013.

Recent Accounting Pronouncements

We continuously monitor and review all current accounting pronouncements and standards from the Financial Accounting Standards Board (FASB) and other authoritative sources of U.S. GAAP for applicability to our operations.

Proposed Amendments to Current Accounting Standards. The FASB is currently working on amendments to existing accounting standards governing a number of areas including, but not limited to, accounting for leases. In August

2010, the FASB issued an exposure draft, Leases, which would replace the existing guidance in ASC Topic 840, Leases. When and if effective, this proposed standard will likely have a significant impact on our consolidated financial statements. However, as the standard-setting process is still ongoing, we are unable to determine the impact this proposed change in accounting will have on our consolidated financial statements at this time.

Our Critical Accounting Policies

Our critical accounting policies reflected in the consolidated financial statements are detailed below.

Revenue Recognition. We recognize revenue, including gift card and layaway sales, in accordance with ASC Topic 605, Revenue Recognition.

Retail merchandise sales occur on-site in our retail stores. Customers have the option of paying the full purchase price of the merchandise upon sale or paying a down payment and placing the merchandise on layaway. The customer may make further payments in installments, but the entire purchase price for merchandise placed on layaway must be received by us within 30 days. The down payment and any installments are recorded by us as short-term deferred revenue until the customer pays the entire purchase price for the merchandise. We recognize revenue at the time the customer takes possession of the merchandise. Retail sales are recorded net of returns and discounts and exclude sales taxes.

We offer a customer loyalty program, the MVP Rewards program, whereby customers, upon registration, can earn points in a variety of ways, including store purchases, website surveys and other activities on our website. Based on the number of points accumulated, customers receive reward certificates on a quarterly basis that can be redeemed in our stores. An estimate of the obligation related to the program, based on historical redemption rates, is recorded as a current liability and a reduction of net sales in the period earned by the customer. The current liability is reduced, and a corresponding amount is recognized in net sales, in the amount of and at the time of redemption of the reward certificate. At January 28, 2012 and January 29, 2011, the amount recorded in current liabilities for reward certificates issued was inconsequential.

The cost of coupon sales incentives is recognized at the time the related revenue is recognized by us. Proceeds received from the issuance of gift cards are initially recorded as deferred revenue. Revenue is subsequently recognized at the time the customer redeems the gift cards and takes possession of the merchandise. Unredeemed gift cards are recorded as a current liability.

Gift card breakage revenue is recognized to the extent not required to be remitted to jurisdictions as unclaimed property and is based upon historical redemption patterns and represents the balance of gift cards for which we believe the likelihood of redemption by the customer is remote. Based on our analyses of redemption activity, we have determined the likelihood of redemption for gift cards 5 years after the date of initial issuance is remote. For Fiscal 2012, Fiscal 2011 and Fiscal 2010, \$0.2 million, \$0.2 million and \$0.3 million of breakage revenue, respectively, was recorded as other income and is included in the accompanying consolidated statements of operations as a reduction to store operating, selling and administrative expenses. The net deferred revenue liability at January 28, 2012 and January 29, 2011 was \$3.5 million and \$3.1 million, respectively.

Inventory Valuation.

Inventories are valued using the lower of weighted average cost or market method. Items are removed from inventory using the weighted average cost method.

Lower of Cost or Market: Market is determined based on estimated net realizable value. We regularly review inventories to determine if the carrying value exceeds realizable value, and we record an accrual to reduce the carrying value to net realizable value as necessary. We account for obsolescence as part of our lower of cost or market accrual based on historical trends and specific identification. As of January 28, 2012 and January 29, 2011, the accrual was \$1.9 million and \$1.8 million, respectively. A determination of net realizable value requires significant judgment and estimates.

Shrink Reserves: We accrue for inventory shrinkage based on the actual historical results of our physical inventories. These estimates are compared to actual results as physical inventory counts are performed and reconciled to the general ledger. Store counts are typically performed on a cyclical basis, and the distribution center's counts are performed quarterly. As of January 28, 2012 and January 29, 2011, the accrual was \$1.6 million and \$1.8 million, respectively.

Inventory Purchase Concentration: Our business is dependent to a significant degree upon close relationships with our vendors. Our largest vendor, Nike, represented 48.3%, 47.8% and 49.9% of our purchases for Fiscal 2012, Fiscal 2011 and Fiscal 2010, respectively. Our second largest vendor represented 11.4%, 8.3% and 6.4% of our purchases while our third largest vendor represented 9.3%, 8.1% and 9.0% of our purchases for Fiscal 2012, Fiscal 2011 and Fiscal 2010, respectively.

Consignment Inventories: Beginning in Fiscal 2010, we expanded our business model to include consignment merchandise. Consignment inventories, which are owned by the vendor but located in our stores, are not reported as

our inventory until title is transferred to us or our purchase obligation is determined. At January 28, 2012 and January 29, 2011, vendor-owned inventories held at our locations (and not reported as our inventory) were \$1.3 million and \$0.7 million, respectively.

Accrued Expenses. On a monthly basis, we estimate certain significant expenses in an effort to record those expenses in the period incurred. Our most significant estimates relate to payroll and payroll tax expenses, property taxes, insurance-related expenses and utility expenses. Estimates are primarily based on current activity and historical results and are adjusted as our estimates change. Determination of estimates and assumptions for accrued expenses requires significant judgment.

Income Taxes. We estimate the annual tax rate based on projected taxable income for the full year and record a quarterly income tax provision in accordance with the anticipated annual rate. As the year progresses, we refine the estimates of the year's taxable income as new information becomes available, including year-to-date financial results. This continual estimation process often results in a change to our expected effective tax rate for the year. When this occurs, we adjust the income tax provision during the quarter in which the change in estimate occurs so that the year-to-date provision reflects the expected annual tax rate. Significant judgment is required in determining our effective tax rate and in evaluating our tax position and changes in estimates could materially impact our results of operations and financial position.

Uncertain Tax Positions. We account for uncertain tax positions in accordance with ASC Topic 740, Income Taxes. The application of income tax law is inherently complex. Laws and regulations in this area are voluminous and are often ambiguous. As such, we are required to make many subjective assumptions and judgments regarding our income tax exposures. Interpretations of and guidance surrounding income tax laws and regulations change over time. As such, changes in our subjective assumptions and judgments can materially affect amounts recognized in the consolidated balance sheets and statements of operations. See “Part II, Item 8, Consolidated Financial Statements Note 9 – Income Taxes” for additional detail on our uncertain tax positions.

Litigation Accruals. Estimated amounts for claims that are probable and can be reasonably estimated are recorded as liabilities in the consolidated balance sheets. The likelihood of a material change in these estimated accruals is dependent on new claims as they may arise and the favorable or unfavorable outcome of a particular litigation. As additional information becomes available, we assess the potential liability related to pending litigation and revise estimates as appropriate. Such revisions in estimates of the potential liability could materially impact our results of operations and financial position.

Impairment of Long-Lived Assets. We continually evaluate whether events and circumstances have occurred that indicate the remaining balance of long-lived assets may be impaired and not recoverable. Our policy is to adjust the remaining useful life of depreciable assets and to recognize any impairment loss on long-lived assets as a charge to current income when events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Impairment is assessed considering the estimated undiscounted cash flows over the asset’s remaining life. If estimated cash flows are insufficient to recover the investment, an impairment loss is recognized based on a comparison of the cost of the asset to fair value less any costs of disposition. Evaluation of asset impairment requires significant judgment and estimates.

Stock-Based Compensation. We use the Black-Scholes option-pricing model to estimate the fair value at the date of grant of stock options granted under our stock option plans and stock purchase rights associated with the Employee Stock Purchase Plan. Volatility is estimated as of the date of grant or purchase date based on management’s estimate of the time period that captures the relative volatility of our stock. We base the risk-free interest rate on the annual continuously compounded risk-free rate with a term equal to the option’s expected term. The effects on net income and earnings per share of stock-based compensation expense, net of tax, calculated using the fair value of stock options and stock purchase rights in accordance with the Black-Scholes option-pricing model are not necessarily representative of the effects of our results of operations in the future. In addition, the compensation expense utilizes an option-pricing model developed for traded options with relatively short lives. Our stock option grants have a life of up to ten years and are not transferable. Therefore, the actual fair value of a stock option grant may be different from our estimates. We believe that our estimates incorporate all relevant information and represent a reasonable approximation in light of the difficulties involved in valuing non-traded stock options. All estimates and assumptions are regularly evaluated and updated when applicable.

Insurance Accruals. We use a combination of insurance and self-insurance for a number of risks including workers’ compensation, general liability, property liability and employee-related health benefits, a portion of which is paid by our employees. The estimates and accruals for the liabilities associated with these risks are regularly evaluated for adequacy based on the most current available information, including historical claims experience and expected future claims costs.

Leases. We lease all our retail stores, our distribution center and certain equipment, including transportation and office equipment. We evaluate each lease at inception to determine whether the lease will be accounted for as an operating or capital lease. The term of the lease used for this evaluation includes renewal option periods only in instances in which the exercise of the renewal option can be reasonably assured and failure to exercise such option would result in an economic penalty. The majority of our retail stores and our distribution center are operating leases.

Many of our operating lease agreements contain rent holidays, rent escalation clauses and/or contingent rent provisions. We recognize rent expense 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. We use a time period for our straight-line rent expense calculation that equals or exceeds the time period used for depreciation on leasehold improvements. In addition, the commencement date of the lease term is the earlier of the date when we become legally obligated for the rent payments or the date when we take possession of the building for initial setup of fixtures and merchandise.

We make judgments regarding the probable term for each lease, which can impact the classification and accounting for a lease as capital or operating, the escalations in payments that are taken into consideration when calculating straight-line rent and the term over which landlord allowances received are amortized. These judgments may produce materially different amounts of depreciation, amortization and rent expense than would be reported in a specific period if different assumed lease terms were used.

Dividend Policy

We have never declared or paid any dividends on our common stock. We currently intend to retain our future earnings to finance the growth and development of our business and for our stock repurchase program, and therefore do not anticipate declaring or paying cash dividends on our common stock for the foreseeable future. Any future decision to declare or pay dividends will be at the discretion of our Board of Directors and will be dependent upon our financial condition, results of operations, capital requirements and such other factors as our Board of Directors deems relevant.

Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer (see “Part II, Item 9A, Controls and Procedures”).

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Investment and Credit Availability Risk

We manage cash and cash equivalents in various institutions at levels beyond federally insured limits per institution, and we may purchase investments not guaranteed by the FDIC. Accordingly, there is a risk that we will not recover the full principal of our investments or that their liquidity may be diminished. In an attempt to mitigate this risk, our investment policy emphasizes preservation of principal and liquidity.

We also have financial institutions that are committed to provide loans under our revolving credit facilities. There is a risk that these institutions cannot deliver against these obligations. For a further discussion of this risk and risks related to our deposits, see “Risk Factors” beginning on Page 10.

Interest Rate Risk

Our net exposure to interest rate risk results primarily from interest rate fluctuations on our credit facilities, which bear an interest at a rate which varies with LIBOR, prime or federal funds rates. At the end of Fiscal 2012 and Fiscal 2011, we had no borrowings outstanding under any credit facility.

During Fiscal 2012, we did not have any borrowings against either of the facilities. There were 10 days during Fiscal 2011, where we incurred borrowings against our credit facilities for an average borrowing of \$5.3 million. During Fiscal 2011, the maximum amount outstanding against these agreements was \$10.8 million and the weighted average interest rate was 2.28%.

Quarterly and Seasonal Fluctuations

We experience seasonal fluctuations in our net sales and results of operations. Customer buying patterns around the spring sales period and the holiday season historically result in higher first and fourth quarter net sales. Over the past few years, our third quarter has experienced higher than historical net sales, resulting from back-to-school shopping combined with tax-free holidays in many of our markets. In addition, our quarterly results of operations may fluctuate significantly as a result of a variety of factors, including the timing of new store openings, the amount and timing of net sales contributed by new stores, merchandise mix and demand for apparel and accessories driven by local interest in sporting events.

Although our operations are influenced by general economic conditions, we do not believe that, historically, inflation has had a material impact on our results of operations as we are generally able to pass along inflationary increases in costs to our customers.

Tax Matters

We do not believe that there are any tax matters that could materially affect our financial condition, results of operations or cash flows.

Item 8. Consolidated Financial Statements and Supplementary Data.

The following consolidated financial statements and supplementary data of our Company are included in response to this item:

·Report of Independent Registered Public Accounting Firm

·Consolidated Balance Sheets as of January 28, 2012 and January 29, 2011

·Consolidated Statements of Operations for the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010

·Consolidated Statements of Cash Flows for the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010

·Consolidated Statements of Stockholders' Investment for the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010

·Notes to Consolidated Financial Statements

All other schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Hibbett Sports, Inc.:

We have audited the accompanying consolidated balance sheets of Hibbett Sports, Inc. and subsidiaries as of January 28, 2012 and January 29, 2011, and the related consolidated statements of operations, stockholders' investment, and cash flows for each of the years in the three-year period ended January 28, 2012. We also have audited Hibbett Sports, Inc.'s internal control over financial reporting as of January 28, 2012, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Hibbett Sports, Inc.'s management is responsible for these consolidated financial statements, 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 these consolidated financial statements and an opinion on Hibbett Sports, Inc.'s internal control over financial reporting 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hibbett Sports, Inc. and subsidiaries as of January 28, 2012 and January 29, 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended January 28, 2012, in conformity with U.S. generally accepted accounting principles. Also in our opinion, Hibbett Sports, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of January 28,

2012, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ KPMG LLP

Birmingham, Alabama
March 26, 2012

HIBBETT SPORTS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share information)

| ASSETS | January 28, 2012 | January 29, 2011 |
|--|---------------------|---------------------|
| Current Assets: | | |
| Cash and cash equivalents | \$55,138 | \$75,517 |
| Trade receivables, net | 3,923 | 3,290 |
| Accounts receivable, other | 2,200 | 2,095 |
| Inventories, net | 195,071 | 174,878 |
| Prepaid expenses and other | 4,639 | 6,033 |
| Deferred income taxes, net | 7,802 | 7,528 |
| Total current assets | 268,773 | 269,341 |
| Property and Equipment: | | |
| Land and building | 245 | 245 |
| Buildings under capital lease | 2,403 | 2,403 |
| Equipment | 55,307 | 51,087 |
| Equipment under capital lease | - | 345 |
| Furniture and fixtures | 26,560 | 25,629 |
| Leasehold improvements | 64,728 | 63,309 |
| Construction in progress | 2,489 | 1,245 |
| | 151,732 | 144,263 |
| Less accumulated depreciation and amortization | 112,136 | 104,207 |
| Net property and equipment | 39,596 | 40,056 |
| Deferred income taxes, net | 3,416 | 3,596 |
| Other assets, net | 1,911 | 1,272 |
| Total Assets | \$313,696 | \$314,265 |
| LIABILITIES AND STOCKHOLDERS' INVESTMENT | | |
| Current Liabilities: | | |
| Accounts payable | \$73,735 | \$75,986 |
| Short-term debt and capital lease obligations | 173 | 312 |
| Accrued payroll expenses | 9,875 | 9,818 |
| Deferred rent | 3,620 | 4,026 |
| Other accrued expenses | 4,255 | 4,192 |
| Total current liabilities | 91,658 | 94,334 |
| Capital lease obligations | 2,072 | 2,245 |
| Deferred rent | 11,571 | 12,816 |
| Unrecognized tax benefits | 2,899 | 3,692 |
| Other liabilities, net | 1,746 | 1,090 |
| Total liabilities | 109,946 | 114,177 |
| Stockholders' Investment: | | |
| Preferred stock, \$.01 par value, 1,000,000 shares authorized, no shares issued | - | - |

Edgar Filing: HIBBETT SPORTS INC - Form 10-K

| | | |
|---|------------|------------|
| Common stock, \$.01 par value, 80,000,000 shares authorized, 37,498,128 and 37,130,646 shares issued at January 28, 2012 and January 29, 2011, respectively | 375 | 371 |
| Paid-in capital | 127,779 | 114,568 |
| Retained earnings | 349,012 | 289,952 |
| Treasury stock, at cost, 11,120,040 and 9,223,038 shares repurchased at January 28, 2012 and January 29, 2011, respectively | (273,416) | (204,803) |
| Total stockholders' investment | 203,750 | 200,088 |
| Total Liabilities and Stockholders' Investment | \$313,696 | \$314,265 |

See accompanying notes to consolidated financial statements.

HIBBETT SPORTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share information)

| | Fiscal Year Ended | | |
|---|---------------------|---------------------|---------------------|
| | January 28, 2012 | January 29, 2011 | January 30, 2010 |
| Net sales | \$732,645 | \$664,954 | \$593,492 |
| Cost of goods sold, including distribution center and store occupancy costs | 470,237 | 434,552 | 397,292 |
| Gross profit | 262,408 | 230,402 | 196,200 |
| Store operating, selling and administrative expenses | 155,672 | 143,232 | 129,888 |
| Depreciation and amortization | 13,205 | 13,623 | 13,905 |
| Operating income | 93,531 | 73,547 | 52,407 |
| Interest income | (25) | (42) | (60) |
| Interest expense | 242 | 147 | 117 |
| Interest expense, net | 217 | 105 | 57 |
| Income before provision for income taxes | 93,314 | 73,442 | 52,350 |
| Provision for income taxes | 34,254 | 27,042 | 19,801 |
| Net income | \$59,060 | \$46,400 | \$32,549 |
| Basic earnings per share | \$2.19 | \$1.63 | \$1.14 |
| Diluted earnings per share | \$2.15 | \$1.60 | \$1.12 |
| Weighted average shares outstanding: | | | |
| Basic | 26,978 | 28,426 | 28,629 |
| Diluted | 27,506 | 29,033 | 29,089 |

See accompanying notes to consolidated financial statements.

HIBBETT SPORTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands, except share information)

| | Fiscal Year Ended | | |
|---|---------------------|---------------------|---------------------|
| | January 28, 2012 | January 29, 2011 | January 30, 2010 |
| Cash Flows From Operating Activities: | | | |
| Net income | \$59,060 | \$46,400 | \$32,549 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 13,205 | 13,623 | 13,905 |
| Deferred and unrecognized income tax benefit, net | (46) | (1,558) | (2,433) |
| Excess tax benefit from stock option exercises | (1,834) | (3,435) | (781) |
| Loss on disposal and write-down of assets, net | 151 | 164 | 232 |
| Stock-based compensation | 5,453 | 4,796 | 4,157 |
| Changes in operating assets and liabilities: | | | |
| Trade receivables, net | (633) | (597) | (70) |
| Accounts receivable, other | (105) | (160) | 829 |
| Inventories, net | (20,193) | (5,484) | (17,618) |
| Prepaid expenses and other | 3,146 | (3,485) | 5,409 |
| Other assets, net, non-current | (157) | (149) | 169 |
| Accounts payable | (2,251) | 11,036 | 489 |
| Deferred rent, non-current | (1,245) | (1,408) | (2,319) |
| Accrued expenses and other | 370 | 2,175 | 2,396 |
| Net cash provided by operating activities | 54,921 | 61,918 | 36,914 |
| Cash Flows From Investing Activities: | | | |
| Purchase of investments, net | (481) | (529) | (39) |
| Capital expenditures | (12,997) | (10,476) | (9,605) |
| Proceeds from sale of property and equipment | 103 | 122 | 41 |
| Net cash used in investing activities | (13,375) | (10,883) | (9,603) |
| Cash Flows From Financing Activities: | | | |
| Cash used for stock repurchases | (67,484) | (37,715) | - |
| Net payments on revolving credit facility and capital lease obligations | (311) | (114) | (77) |
| Excess tax benefit from stock option exercises | 1,834 | 3,435 | 781 |
| Cash used to settle net share equity awards | (1,129) | (144) | - |
| Proceeds from options exercised and purchase of shares under the employee stock purchase plan | 5,165 | 9,329 | 1,026 |
| Net cash (used in) provided by financing activities | (61,925) | (25,209) | 1,730 |
| Net (Decrease) Increase in Cash and Cash Equivalents | (20,379) | 25,826 | 29,041 |
| Cash and Cash Equivalents, Beginning of Year | 75,517 | 49,691 | 20,650 |
| Cash and Cash Equivalents, End of Year | \$55,138 | \$75,517 | \$49,691 |

Supplemental Disclosures of Cash Flow Information:

Cash paid during the year for:

Edgar Filing: HIBBETT SPORTS INC - Form 10-K

| | | | |
|------------------------------|----------|----------|----------|
| Interest | \$277 | \$95 | \$117 |
| Income taxes, net of refunds | \$30,788 | \$31,987 | \$16,955 |

Supplemental Schedule of Non-Cash Financing Activities:

| | | | |
|---|-------|---------|-------|
| Deferred board compensation | \$60 | \$- | \$- |
| Shares awarded to satisfy deferred board compensation | 1,561 | - | - |
| Property and plant additions under capital lease | \$- | \$2,403 | \$345 |

See accompanying notes to consolidated financial statements.

HIBBETT SPORTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' INVESTMENT
(in thousands, except share information)

| | Common Stock | | | | Treasury Stock | | Total |
|---|---------------------|--------|--------------------|----------------------|---------------------|--------------|-----------------------------|
| | Number of Shares | Amount | Paid-In Capital | Retained Earnings | Number of Shares | Amount | Stockholders' Investment |
| Balance-January 31, 2009 | 36,304,735 | \$ 363 | \$ 92,153 | \$ 211,003 | 7,761,813 | \$ (166,944) | \$ 136,575 |
| Net income | - | - | - | 32,549 | - | - | 32,549 |
| Issuance of shares from the employee stock purchase plan and the exercise of stock options, including tax benefit of \$408 | 131,768 | 1 | 1,430 | - | - | - | 1,431 |
| Tax shortfall on release of restricted stock and option exercises | - | - | (6) | - | - | - | (6) |
| Adjustment to income tax benefit from exercises of employee stock options | - | - | 373 | - | - | - | 373 |
| Stock-based compensation | - | - | 4,157 | - | - | - | 4,157 |
| Balance-January 30, 2010 | 36,436,503 | 364 | 98,107 | 243,552 | 7,761,813 | (166,944) | 175,079 |
| Net income | - | - | - | 46,400 | - | - | 46,400 |
| Issuance of shares from the employee stock purchase plan and the exercise of stock options, including tax benefit of \$3,435 | 694,143 | 7 | 12,756 | - | - | - | 12,763 |
| Tax shortfall on release of restricted stock and option exercises | - | - | (67) | - | - | - | (67) |
| Adjustment to income tax benefit from exercises of employee stock options | - | - | (1,024) | - | - | - | (1,024) |
| Purchase of shares under the stock repurchase program | - | - | - | - | 1,461,225 | (37,859) | (37,859) |
| Stock-based compensation | - | - | 4,796 | - | - | - | 4,796 |

| | | | | | | | |
|---|------------|--------|------------|------------|------------|--------------|------------|
| Balance-January 29, 2011 | 37,130,646 | 371 | 114,568 | 289,952 | 9,223,038 | (204,803) | 200,088 |
| Net income | - | - | - | 59,060 | - | - | 59,060 |
| Issuance of shares from the employee stock purchase plan and the exercise of stock options, including tax benefit of \$1,834 | 367,482 | 4 | 6,995 | - | - | - | 6,999 |
| Tax shortfall on release of restricted stock and option exercises | - | - | (51) | - | - | - | (51) |
| Adjustment to income tax benefit from exercises of employee stock options | - | - | 814 | - | - | - | 814 |
| Purchase of shares under the stock repurchase program | - | - | - | - | 1,897,002 | (68,613) | (68,613) |
| Stock-based compensation | - | - | 5,453 | - | - | - | 5,453 |
| Balance-January 28, 2012 | 37,498,128 | \$ 375 | \$ 127,779 | \$ 349,012 | 11,120,040 | \$ (273,416) | \$ 203,750 |

See accompanying notes to consolidated financial statements.

HIBBETT SPORTS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

Hibbett Sports, Inc. is an operator of sporting goods retail stores in small to mid-sized markets predominately in the Southeast, Southwest, Mid-Atlantic and Midwest regions of the United States. References to “we,” “our,” “us” and the “Company” refer to Hibbett Sports, Inc. and its subsidiaries as well as its predecessors. Our fiscal year ends on the Saturday closest to January 31 of each year. The consolidated statements of operations for Fiscal 2012, Fiscal 2011 and Fiscal 2010 include 52 weeks of operations. Our merchandise assortment features a core selection of brand name merchandise emphasizing athletic footwear, team sports equipment, athletic and fashion apparel and related accessories. We complement this core assortment with a selection of localized apparel, footwear and accessories designed to appeal to a wide range of customers within each market.

Principles of Consolidation

The consolidated financial statements of our Company include its accounts and the accounts of all wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. Occasionally, certain reclassifications are made to conform previously reported data to the current presentation. Such reclassifications had no impact on total assets, net income or stockholders’ investment in any of the years presented.

Use of Estimates in the Preparation of Consolidated Financial Statements

The preparation of consolidated financial statements in conformity with U.S. Generally Accepted Accounting Principles (U.S. GAAP) requires management to make estimates and assumptions that affect:

- the reported amounts of certain assets, including inventories and property and equipment;
- the reported amounts of certain liabilities, including legal and other accruals; and
- the reported amounts of certain revenues and expenses during the reporting period.

The assumptions used by management could change significantly in future estimates due to changes in circumstances and actual results could differ from those estimates.

Reportable Segments

Given the economic characteristics of the store formats, the similar nature of products offered for sale, the type of customers, the methods of distribution and how our Company is managed, our operations constitute only one reportable segment. Revenues from external customers by product category are impractical for us to report.

Customers

No customer accounted for more than 5.0% of our net sales during the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010.

Vendor Arrangements

We enter into arrangements with some of our vendors that entitle us to a partial refund of the cost of merchandise purchased during the year or reimbursement of certain costs we incur to advertise or otherwise promote their product. The volume-based rebates, supported by vendor agreements, are estimated throughout the year and reduce the cost of inventories and cost of goods sold during the year. This estimate is regularly monitored and adjusted for current or anticipated changes in purchase levels and for sales activity.

We also receive consideration from vendors through a variety of other programs, including markdown reimbursements, vendor compliance charges and defective merchandise credits. If the payment is a reimbursement for costs incurred, it is recognized as an offset against those related costs; otherwise, it is treated as a reduction to the cost of merchandise. Markdown reimbursements related to merchandise that has been sold are negotiated by our merchandising teams and are credited directly to cost of goods sold in the period received. If vendor funds are received prior to merchandise being sold, they are recorded as a reduction of merchandise cost. Vendor compliance charges and defective merchandise credits reduce the cost of inventories.

Advertising

We expense advertising costs when incurred. We participate in various advertising and marketing cooperative programs with our vendors, who, under these programs, reimburse us for certain costs incurred. A receivable for cooperative advertising to be reimbursed is recorded as a decrease to expense as advertisements are run.

The following table presents the components of our advertising expense (in thousands):

| | Fiscal Year Ended | | |
|----------------------------|------------------------|------------------------|------------------------|
| | January 28, 2012 | January 29, 2011 | January 30, 2010 |
| Gross advertising costs | \$ 8,329 | \$ 7,314 | \$ 5,572 |
| Advertising reimbursements | (3,748) | (3,389) | (2,268) |
| Net advertising costs | \$ 4,581 | \$ 3,925 | \$ 3,304 |

Cost of Goods Sold

We include inbound freight charges, merchandise purchases, store occupancy costs and a portion of our distribution costs related to our retail business in cost of goods sold. Costs associated with moving merchandise to and between stores are included in store operating, selling and administrative expenses.

Stock Repurchase Program

In November 2009, the Board of Directors (Board) authorized a Stock Repurchase Program (Program) of \$250.0 million to repurchase our common stock through February 2, 2013. The Program replaced our existing plan that was adopted in August 2004. Stock repurchases may be made in the open market or in negotiated transactions, with the amount and timing of repurchases dependent on market conditions and at the discretion of our management.

We repurchased 1,897,002 shares of our common stock during Fiscal 2012 at a cost of \$68.6 million, including 36,352 shares acquired from holders of restricted stock unit awards to satisfy tax withholding requirements of \$1.1 million. We repurchased 1,461,225 shares of our common stock during Fiscal 2011 at a cost of \$37.9 million, including 6,130 shares acquired from holders of restricted stock unit awards to satisfy tax withholding requirements of \$0.2 million.

Under the old authorization, we had repurchased 7,761,813 shares of our common stock at a cost of \$166.9 million. Under both authorizations, we had repurchased a total of 11,120,040 shares of our common stock at an approximate cost of \$273.4 million as of January 28, 2012, and had approximately \$144.7 million remaining under the Program for stock repurchase.

Cash and Cash Equivalents

We consider all short-term, highly liquid investments with original maturities of 90 days or less, including commercial paper and money market funds, to be cash equivalents. We are exposed to credit risk in the event of default by our financial institutions where we maintain deposits to the extent the amount recorded on the consolidated balance sheet exceeds the FDIC insurance limits per institution. Amounts due from third-party credit card processors for the settlement of debit and credit card transactions are included as cash equivalents as they are generally collected within three business days. Cash equivalents related to credit and debit card transactions at January 28, 2012 and January 29, 2011 were \$3.0 million and \$3.6 million, respectively.

Investments

We hold investments in trust for the Hibbett Sports, Inc. Supplemental 401(k) Plan (Supplemental Plan) and the Hibbett Sports, Inc. Executive Voluntary Deferral Plan (Deferral Plan). These are trading securities and are classified

as long-term assets on the consolidated balance sheets and are included in other assets, net. At January 28, 2012 and January 29, 2011, we had \$1.4 million and \$0.9 million, respectively, of investments included in other assets, net. Net unrealized holding gains for both Fiscal 2012 and Fiscal 2011 were \$0.1 million.

Trade and Other Accounts Receivable

Trade accounts receivable consist primarily of amounts due to us from sales to educational institutions for athletic programs. We do not require collateral, and we maintain an allowance for potential uncollectible accounts based on an analysis of the aging of accounts receivable at the date of the financial statements, historical losses and existing economic conditions, when relevant. The allowance for doubtful accounts at January 28, 2012 and January 29, 2011 was \$49,000 and \$47,000, respectively.

Other accounts receivable consists primarily of tenant allowances due from landlords and cooperative advertising due from vendors. We analyze other accounts receivable for collectibility based on aging of individual components, underlying contractual terms and economic conditions. Recorded amounts are deemed to be collectible.

Inventories and Valuation

Inventories are valued using the lower of weighted average cost or market method. Items are removed from inventory using the weighted average cost method.

Lower of Cost or Market: Market is determined based on estimated net realizable value. We regularly review inventories to determine if the carrying value exceeds realizable value, and we record an accrual to reduce the carrying value to net realizable value as necessary. We account for obsolescence as part of our lower of cost or market accrual based on historical trends and specific identification. As of January 28, 2012 and January 29, 2011, the accrual was \$1.9 million and \$1.8 million, respectively. A determination of net realizable value requires significant judgment and estimates.

Shrinkage: We accrue for inventory shrinkage based on the actual historical results of physical inventories. These estimates are compared to actual results as physical inventory counts are performed and reconciled to the general ledger. Store counts are typically performed on a cyclical basis and the distribution center's counts are performed quarterly. As of January 28, 2012 and January 29, 2011, the accrual was \$1.6 million and \$1.8 million, respectively.

Inventory Purchase Concentration: Our business is dependent to a significant degree upon close relationships with our vendors. Our largest vendor, Nike, represented 48.3%, 47.8% and 49.9% of our purchases in Fiscal 2012, Fiscal 2011 and Fiscal 2010, respectively. Our next largest vendor represented 11.4%, 8.3% and 6.4% of our purchases in Fiscal 2012, Fiscal 2011 and Fiscal 2010, respectively. Our third largest vendor represented 9.3%, 8.1% and 9.0% of our purchases in Fiscal 2012, Fiscal 2011 and Fiscal 2010, respectively.

Consignment Inventories: Beginning in Fiscal 2010, we expanded our business model to include consignment merchandise. Consignment inventories, which are owned by the vendor but located in our stores, are not reported as our inventory until title is transferred to us or our purchase obligation is determined. At January 28, 2012 and January 29, 2011, vendor-owned inventories held at our locations (and not reported as our inventory) were \$1.3 million and \$0.7 million, respectively.

Property and Equipment

Property and equipment are recorded at cost and include assets acquired through capital leases. Depreciation on assets is principally provided using the straight-line method over the following estimated service lives:

| | |
|------------------------|-----------------|
| Buildings | 39 years |
| Leasehold improvements | 3 – 10 years |
| Furniture and fixtures | 7 years |
| Equipment | 3 – 5 years |

In the case of leasehold improvements, we calculate depreciation using the shorter of the initial term of the underlying leases or the estimated economic lives of the improvements. The term of the lease includes renewal option periods only in instances in which the exercise of the renewal option can be reasonably assured and failure to exercise such option would result in an economic penalty. We continually reassess the remaining useful life of leasehold improvements in light of store closing plans.

Construction in progress has historically been comprised primarily of property and equipment related to unopened stores and costs associated with technology upgrades at period-end. At fiscal year ended January 28, 2012, approximately 95% of the construction in progress balance was comprised of costs associated with technology projects.

Maintenance and repairs are charged to expense as incurred. The cost and accumulated depreciation of assets sold, retired or otherwise disposed of are removed from property and equipment and the related gain or loss is credited or charged to net income.

Deferred Rent

Deferred rent primarily consists of step rent and allowances from landlords related to our leased properties. Step rent represents the difference between actual operating lease payments due and straight-line rent expense, which we record over the term of the lease, including the build-out period. This amount is recorded as deferred rent in the early years of the lease, when cash payments are generally lower than straight-line rent expense, and reduced in the later years of the lease when payments begin to exceed the straight-line rent expense. Landlord allowances are generally comprised of amounts received and/or promised to us by landlords and may be received in the form of cash or free rent. We record a receivable from the landlord in accordance with the terms of the lease and a deferred rent liability. This deferred rent is amortized into net 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.

In our consolidated statements of cash flows, the current and long-term portions of landlord allowances are included as changes in cash flows from operations. The current portion is included as a change in accrued expenses and the long-term portion is included as a change in deferred rent, non-current. The liability for the current portion of unamortized landlord allowances was \$3.1 million and \$3.4 million at January 28, 2012 and January 29, 2011, respectively. The liability for the long-term portion of unamortized landlord allowances was \$8.2 million and \$9.4 million at January 28, 2012 and January 29, 2011, respectively. We estimate the non-cash portion of landlord allowances was \$0.9 million and \$0.5 million in Fiscal 2012 and Fiscal 2011, respectively.

Revenue Recognition

We recognize revenue, including gift card and layaway sales, in accordance with the Accounting Standards Codification (ASC) Topic 605, Revenue Recognition.

Retail merchandise sales occur on-site in our retail stores. Customers have the option of paying the full purchase price of the merchandise upon sale or paying a down payment and placing the merchandise on layaway. The customer may make further payments in installments, but the entire purchase price for merchandise placed on layaway must be received by us within 30 days. The down payment and any installments are recorded by us as short-term deferred revenue until the customer pays the entire purchase price for the merchandise. We recognize revenue at the time the customer takes possession of the merchandise. Retail sales are recorded net of returns and discounts and exclude sales taxes.

We offer a customer loyalty program, the MVP Rewards program, whereby customers, upon registration, can earn points in a variety of ways, including store purchases, website surveys and other activities on our website. Based on the number of points accumulated, customers receive reward certificates on a quarterly basis that can be redeemed in our stores. An estimate of the obligation related to the program, based on historical redemption rates, is recorded as a current liability and a reduction of net retail sales in the period earned by the customer. The current liability is reduced, and a corresponding amount is recognized in net retail sales, in the amount of and at the time of redemption of the reward certificate. At January 28, 2012 and January 29, 2011, the amount recorded in current liabilities for reward certificates issued was inconsequential.

The cost of coupon sales incentives is recognized at the time the related revenue is recognized by us. Proceeds received from the issuance of gift cards are initially recorded as deferred revenue. Revenue is subsequently recognized at the time the customer redeems the gift cards and takes possession of the merchandise. Unredeemed gift cards are recorded as a current liability.

Gift card breakage revenue is recognized to the extent not required to be remitted to jurisdictions as unclaimed property and is based upon historical redemption patterns and represents the balance of gift cards for which we believe the likelihood of redemption by the customer is remote. Based on our analyses of redemption activity, we have determined the likelihood of redemption for gift cards 5 years after the date of initial issuance is remote. For Fiscal 2012, Fiscal 2011 and Fiscal 2010, \$0.2 million, \$0.2 million and \$0.3 million of breakage revenue, respectively, was recorded in net income as other income and is included in the accompanying consolidated statements of operations as a reduction to store operating, selling and administrative expense. The net deferred revenue liability at January 28, 2012 and January 29, 2011 was \$3.5 million and \$3.1 million, respectively.

Store Opening and Closing Costs

New store opening costs, including pre-opening costs, are charged to expense as incurred. Store opening costs primarily include payroll expenses, training costs and straight-line rent expenses. All pre-opening costs are included in store operating, selling and administrative expenses as a part of operating expenses.

We consider individual store closings to be a normal part of operations and regularly review store performance against expectations. Costs associated with store closings are recognized at the time of closing or when a liability has been incurred.

Impairment of Long-Lived Assets

We continually evaluate whether events and circumstances have occurred that indicate the remaining balance of long-lived assets may be impaired and not recoverable. Our policy is to recognize any impairment loss on long-lived assets as a charge to current income when certain events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Impairment is assessed considering the estimated undiscounted cash flows over the asset's remaining life. If estimated cash flows are insufficient to recover the investment, an impairment loss is recognized based on a comparison of the cost of the asset to fair value less any costs of disposition. Evaluation of asset impairment requires significant judgment and estimates.

Insurance Accrual

We are self-insured for a significant portion of our health insurance. Liabilities associated with the risks that are retained by us are estimated, in part, by considering our historical claims experience. The estimated accruals for these liabilities could be affected if future occurrences and claims differ from our assumptions. To minimize our potential exposure, we carry stop-loss insurance that reimburses us for losses over \$0.2 million per covered person per year, limited to a lifetime maximum reimbursement of \$1.9 million per covered person. As of January 28, 2012 and January 29, 2011, the accrual for these liabilities was \$0.8 million and \$0.9 million, respectively, and was included in accrued expenses in the consolidated balance sheets.

We are also self-insured for our workers' compensation, property and general liability insurance up to an established deductible with a cumulative stop-loss on workers' compensation. As of January 28, 2012 and January 29, 2011, the accrual for these liabilities (which is not discounted) was \$0.4 million and was included in accrued expenses in the consolidated balance sheets.

Sales Returns

Net sales returns were \$25.7 million for Fiscal 2012, \$23.2 million for Fiscal 2011 and \$20.3 million for Fiscal 2010. The accrual for the effect of estimated returns on pre-tax income was \$0.4 million as of January 28, 2012 and January 29, 2011, and was included in accrued expenses in the consolidated balance sheets. Determination of the accrual for estimated returns requires significant judgment and estimates.

NOTE 2. RECENT ACCOUNTING PRONOUNCEMENTS

We continuously monitor and review all current accounting pronouncements and standards from the Financial Accounting Standards Board (FASB) and other authoritative sources of U.S. GAAP for applicability to our operations.

Proposed Amendments to Current Accounting Standards. The FASB is currently working on amendments to existing accounting standards governing a number of areas including, but not limited to, accounting for leases. In August 2010, the FASB issued an exposure draft, *Leases*, which would replace the existing guidance in ASC Topic 840, *Leases*. When and if effective, this proposed standard will likely have a significant impact on our consolidated financial statements. However, as the standard-setting process is still ongoing, we are unable to determine the impact this proposed change in accounting will have on the consolidated financial statements at this time.

NOTE 3. STOCK-BASED COMPENSATION

At January 28, 2012, we had four stock-based compensation plans:

- (a) The Amended 2005 Equity Incentive Plan (EIP) provides that the Board of Directors may grant equity awards to certain employees of the Company at its discretion. The EIP was adopted effective July 1, 2005 and authorizes grants of equity awards of up to 1,983,159 authorized but unissued shares of common stock. At January 28, 2012, there were 911,626 shares available for grant under the EIP.
- (b) The Amended 2005 Employee Stock Purchase Plan (ESPP) allows for qualified employees to participate in the purchase of up to 204,794 shares of our common stock at a price equal to 85% of the lower of the closing price at the beginning or end of each quarterly stock purchase period. The ESPP was adopted effective July 1, 2005. At January 28, 2012, there were 92,915 shares available for purchase under the ESPP.

(c) The Amended 2005 Director Deferred Compensation Plan (Deferred Plan) allows non-employee directors an election to defer all or a portion of their fees into stock units or stock options. The Deferred Plan was adopted effective July 1, 2005 and authorizes grants of stock up to 112,500 authorized but unissued shares of common stock. At January 28, 2012, there were 61,147 shares available for grant under the Deferred Plan.

(d) The Amended 2006 Non-Employee Director Equity Plan (NEDEP) provides for grants of equity awards to non-employee directors. The NEDEP was adopted effective June 1, 2006 and authorizes grants of equity awards of up to 679,891 authorized but unissued shares of common stock. At January 28, 2012, there were 510,165 shares available for grant under the NEDEP.

Our plans allow for a variety of equity awards including stock options, restricted stock awards, stock appreciation rights and performance awards. As of January 28, 2012, we had only granted awards in the form of stock options, restricted stock units (RSUs) and performance-based units (PSUs) to our employees and in the form of stock options to our Board members. The annual grant made for Fiscal 2012, Fiscal 2011 and Fiscal 2010 to employees consisted solely of RSUs. We have also awarded PSUs to our Named Executive Officers (NEOs) and expect the Compensation Committee of the Board will continue to grant PSUs to our NEOs in the future. The terms and vesting schedules for stock-based awards vary by type of grant and generally vest upon time-based conditions. Upon exercise, stock-based compensation awards are settled with authorized but unissued company stock. All of our awards are classified as equity awards.

The compensation cost for these plans was as follows (in thousands):

| | Fiscal Year Ended | | |
|---|---------------------|---------------------|---------------------|
| | January 28, 2012 | January 29, 2011 | January 30, 2010 |
| Stock-based compensation expense by type: | | | |
| Stock options | \$ 460 | \$ 792 | \$ 1,799 |
| Restricted stock units | 4,857 | 3,937 | 2,278 |
| Employee stock purchases | 76 | 67 | 80 |
| Director deferred compensation | 60 | - | - |
| Total stock-based compensation expense | 5,453 | 4,796 | 4,157 |
| Income tax benefit recognized | 1,987 | 1,666 | 1,277 |
| Stock-based compensation expense, net of income tax | \$ 3,466 | \$ 3,130 | \$ 2,880 |

Stock-based and deferred stock compensation expenses are included in store operating, selling and administrative expenses. There is no capitalized stock-based compensation cost.

The income tax benefit recognized in our consolidated financial statements, as disclosed above, is based on the amount of compensation expense recorded for book purposes. The actual income tax benefit realized in our income tax return is based on the intrinsic value, or the excess of the market value over the exercise or purchase price, of stock options exercised and restricted stock unit awards vested during the period. The actual income tax benefit realized for the deductions considered on our income tax returns for Fiscal 2012 was from option exercises and restricted stock releases and totaled \$3.2 million. The actual income tax benefit realized for the deductions considered on our income tax returns for Fiscal 2011 and Fiscal 2010, was from option exercises and totaled \$4.5 million and \$0.5 million, respectively.

Stock Options

Stock options are granted with an exercise price equal to the closing market price of our common stock on the date of grant. Vesting and expiration provisions vary between equity plans, but options typically vest over a four or five year period in equal installments beginning on the first anniversary of the grant date and typically expire on the eighth or tenth anniversary of the date of grant. Grants awarded to outside directors under both the DEP and Deferred Plan vest immediately upon grant and expire on the tenth anniversary of the date of grant.

Following is the weighted average fair value of each option granted during Fiscal 2012. The fair value was estimated on the date of grant using the Black-Scholes pricing model with the following weighted average assumptions for each period:

| | Quarter Ended | | | | |
|------------|-------------------|------------------|---------------------|---------------------|--------|
| | April 30, 2011 | July 30, 2011 | October 29, 2011 | January 28, 2012 | |
| Grant date | Mar 16 | Mar 31 | Jun 30 | Sep 30 | Dec 31 |

Edgar Filing: HIBBETT SPORTS INC - Form 10-K

| | | | | | |
|--|---------|---------|---------|---------|---------|
| Exercise price | \$31.26 | \$35.81 | \$40.71 | \$33.90 | \$45.18 |
| Weighted average fair value at date of grant | \$12.58 | \$14.52 | \$15.95 | \$13.86 | \$17.92 |
| Expected option life (years) | 4.67 | 4.67 | 4.67 | 4.75 | 4.75 |
| Expected volatility | 45.52 | 45.26 | 44.31 | 47.6 | 46.18 |
| Risk-free interest rate | 1.72% | 2.07% | 1.61% | 0.90% | 0.78% |
| Dividend yield | None | None | None | None | None |

We calculate the expected term for our stock options based on the historical exercise behavior of our participants. Historically, an increase in our stock price has led to a pattern of earlier exercise by participants. Typically, grants made to our Directors have a contractual term of 10 years, while grants made to our employees have a contractual term of 8 years. We have not awarded a stock option grant to employees since 2009. With the absence of option grants to employees, we anticipate the expected term will increase because it will be affected to a greater extent by director options which have a longer contractual life.

The volatility used to value stock options is based on historical volatility. We calculate historical volatility using an average calculation methodology based on daily price intervals as measured over the expected term of the option. We have consistently applied this methodology since our adoption of the original disclosure provisions of ASC Topic 718, Stock Compensation.

In accordance with ASC Topic 718, we base the risk-free interest rate on the annual continuously compounded risk-free rate with a term equal to the option's expected term. The dividend yield is assumed to be zero since we have no current plan to declare dividends.

Activity for our option plans during Fiscal 2012 was as follows:

| | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value (\$000's) |
|--|---------------------|--|---|--|
| Options outstanding at January 29, 2011 | 631,041 | \$ 21.54 | 4.90 | \$ 6,933 |
| Granted | 35,557 | 32.21 | | |
| Exercised | (245,402) | 19.97 | | |
| Forfeited, cancelled or expired | - | - | | |
| Options outstanding at January 28, 2012 | 421,196 | \$ 23.35 | 5.16 | \$ 9,837 |
| Exercisable at January 28, 2012 | 392,821 | \$ 23.70 | 5.16 | \$ 9,311 |

The weighted average grant-date fair value of options granted during Fiscal 2012, Fiscal 2011 and Fiscal 2010 was \$12.95, \$11.00 and \$9.48, respectively. The compensation expense included in store operating, selling and administrative expenses and recognized during Fiscal 2012, Fiscal 2011 and Fiscal 2010 was \$0.4 million, \$0.8 million and \$1.8 million, respectively, before the recognized income tax benefit of \$0.2 million, \$0.2 million and \$0.4 million, respectively.

The total intrinsic value of stock options exercised during Fiscal 2012, Fiscal 2011 and Fiscal 2010 was \$5.3 million, \$11.3 million and \$1.3 million, respectively. The total cash received from these stock option exercises during Fiscal 2012, Fiscal 2011 and Fiscal 2010 was \$4.9 million, \$9.1 million and \$0.8 million, respectively. Excess income tax proceeds from stock option exercises are included in cash flows from financing activities as required by ASC Topic 230, Statement of Cash Flows. As of January 28, 2012, there was no unrecognized compensation cost related to nonvested stock options.

Restricted Stock and Performance-Based Units

RSUs and PSUs are granted with a fair value equal to the closing market price of our common stock on the date of grant. All PSUs have been awarded in the form of restricted stock units. Compensation expense is recorded straight-line over the vesting period and, in the case of PSUs, at the estimated percent of achievement. Restricted stock unit awards generally cliff vest in four years from the date of grant for those awards that are not performance-based. PSUs provide for awards based on achievement of certain predetermined corporate performance goals and cliff vest in one to five years from the date of grant after achievement of stated performance criterion and upon meeting stated service conditions.

The following table summarizes the restricted stock unit awards activity under all of our plans during Fiscal 2012:

| RSUs | | PSUs | | Totals | |
|---------------------|-----------------------------------|---------------------|-----------------------------------|---------------------|-----------------------------------|
| Number of Awards | Weighted Average Grant-Date | Number of Awards | Weighted Average Grant-Date | Number of Awards | Weighted Average Grant-Date |

Edgar Filing: HIBBETT SPORTS INC - Form 10-K

| | Fair Value | | Fair Value | | Fair Value | |
|---------------------------------|------------|----------|------------|----------|------------|----------|
| Restricted stock unit awards | | | | | | |
| outstanding at January 29, 2011 | 461,160 | \$ 21.41 | 218,270 | \$ 19.98 | 679,430 | \$ 20.95 |
| Granted | 103,143 | 31.34 | 53,000 | 31.26 | 156,143 | 31.31 |
| PSU multiplier earned (1) | - | - | 40,335 | 24.89 | 40,335 | 24.89 |
| Vested | (92,041) | 28.93 | (15,755) | 14.93 | (107,796) | 26.88 |
| Forfeited, cancelled or expired | (14,940) | 22.57 | - | - | (14,940) | 22.57 |
| Restricted stock unit awards | | | | | | |
| outstanding at January 28, 2012 | 457,322 | \$ 22.09 | 295,850 | \$ 22.95 | 753,172 | \$ 22.43 |

(1) PSU multiplier earned represents additional RSUs awarded to our NEOs above the target grant resulting from the achievement of performance goals above the performance targets established at grant.

The weighted average grant date fair value of our RSUs granted was \$31.31, \$25.86 and \$18.06 for the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010, respectively. There were 156,143, 193,421 and 238,607 RSUs granted during Fiscal 2012, Fiscal 2011 and Fiscal 2010, respectively. The compensation expense included in store operating, selling and administrative expenses and recognized during Fiscal 2012, Fiscal 2011 and Fiscal 2010 was \$4.9 million, \$3.9 million and \$2.3 million, respectively, before the recognized income tax benefit of \$1.8 million, \$1.4 million and \$0.9 million, respectively.

During the Fiscal 2012, restricted stock unit awards of 107,796 units, including 15,755 awards that were PSUs, vested with an intrinsic value of \$3.3 million. The total intrinsic value of our restricted stock unit awards outstanding and unvested at January 28, 2012, January 29, 2011 and January 30, 2010 was \$36.9 million, \$22.1 million and \$11.3 million, respectively. As of January 28, 2012, there was approximately \$8.4 million of total unamortized unrecognized compensation cost related to RSU awards. This cost is expected to be recognized over a weighted average period of 2.4 years.

Employee Stock Purchase Plan

The Company's ESPP allows eligible employees the right to purchase shares of our common stock, subject to certain limitations, at 85% of the lesser of the market value at the end of each calendar quarter (purchase date) or the beginning of each calendar quarter. Our employee purchases of common stock and the average price per share through the ESPP were as follows:

| Fiscal Year Ended | Shares Purchased | Average Price Per Share |
|-------------------|------------------|-------------------------|
| January 28, 2012 | 9,184 | \$ 29.76 |
| January 29, 2011 | 13,144 | \$ 19.92 |
| January 30, 2010 | 19,152 | \$ 14.34 |

The assumptions used in the option pricing model were as follows:

| | Fiscal Year Ended | | |
|--|-------------------|------------------|------------------|
| | January 28, 2012 | January 29, 2011 | January 30, 2010 |
| Weighted average fair value at date of grant | \$8.23 | \$5.19 | \$4.27 |
| Expected life (years) | 0.25 | 0.25 | 0.25 |
| Expected volatility | 43.6% - 45.2% | 43.5% - 46.6% | 47.5% - 68.0% |
| Risk-free interest rate | 0.04% - 0.10% | 0.05% - 0.15% | 0.03% - 0.22% |
| Dividend yield | None | None | None |

The expense related to the ESPP was determined using the Black-Scholes option pricing model and the provisions of ASC Topic 718 as it relates to accounting for certain employee stock purchase plans with a look-back option. The compensation expense included in store operating, selling and administrative expenses and recognized during each of Fiscal 2012, Fiscal 2011 and Fiscal 2010 was \$0.1 million.

Director Deferred Compensation

Under the Deferred Plan, non-employee directors can elect to defer all or a portion of their Board and Board Committee fees into cash, stock options or deferred stock units. Those fees deferred into stock options are subject to

the same provisions as provided for in the DEP and are expensed and accounted for accordingly. Director fees deferred into our common stock are calculated and expensed each calendar quarter by taking total fees earned during the calendar quarter and dividing by the closing price on the last day of the calendar quarter, rounded to the nearest whole share. The total annual retainer, Board and Board Committee fees for non-employee directors that are not deferred into stock options, but which includes amounts deferred into stock units under the Deferred Plan, are expensed as incurred in all periods presented. A total of 1,561 stock units were deferred under this plan in Fiscal 2012. No stock units were deferred under this plan in Fiscal 2011 and Fiscal 2010. No directors have elected to defer compensation into stock units in calendar 2012.

The compensation expense included in store operating, selling and administrative expenses and recognized during Fiscal 2012 was \$60,000, before the recognized income tax benefit of \$22,000. There was no compensation expense related to director deferred compensation included in store operating, selling and administrative expenses during Fiscal 2011 and Fiscal 2010.

NOTE 4. EARNINGS PER SHARE

The computation of basic earnings per share (EPS) is based on the number of weighted average common shares outstanding during the period. The computation of diluted EPS is based on the weighted average number of shares outstanding plus the incremental shares that would be outstanding assuming exercise of dilutive stock options and issuance of restricted stock. The number of incremental shares is calculated by applying the treasury stock method. The following table sets forth the computation of basic and diluted earnings per share:

| | Fiscal Year Ended | | |
|--|---------------------|---------------------|---------------------|
| | January 28, 2012 | January 29, 2011 | January 30, 2010 |
| Net income, in thousands | \$ 59,060 | \$ 46,400 | \$ 32,549 |
| Weighted average number of common shares outstanding | 26,978,176 | 28,425,781 | 28,629,023 |
| Dilutive stock options | 176,845 | 264,420 | 281,213 |
| Dilutive restricted stock | 351,367 | 343,024 | 178,510 |
| Weighted average number of common shares outstanding and dilutive shares | 27,506,388 | 29,033,225 | 29,088,746 |
| Basic earnings per share | \$ 2.19 | \$ 1.63 | \$ 1.14 |
| Diluted earnings per share | \$ 2.15 | \$ 1.60 | \$ 1.12 |

In calculating diluted earnings per share for Fiscal 2012 and Fiscal 2011, there were no options to purchase shares of common stock outstanding as of the end of the period that were excluded in the computations of diluted earnings per share due to their anti-dilutive effect. In calculating diluted earnings per share for Fiscal 2010, options to purchase 304,361 shares of common stock were outstanding as of the end of the period, but were not included in the computations of diluted earnings per share due to their anti-dilutive effect.

We excluded 137,800 nonvested stock awards granted to certain employees from the computation of diluted weighted average common shares and common share equivalents outstanding, because they are subject to performance-based annual vesting conditions which had not been achieved by the end of Fiscal 2012. Assuming the performance criteria had been achieved at target as of January 28, 2012, the incremental dilutive impact would have been 65,179 shares.

NOTE 5. DEBT

At January 28, 2012, we had two unsecured credit facilities, which are renewable in August and November 2012. The August facility allows for borrowings up to \$30.0 million at a rate equal to the higher of prime rate, the federal funds rate plus 0.5% or LIBOR. The November facility allows for borrowings up to \$50.0 million at a rate of prime plus 2%. Under the provisions of both facilities, we do not pay commitment fees and are not subject to covenant requirements. We did not have any borrowings against either of these facilities during Fiscal 2012, nor was there any debt outstanding under either of these facilities at January 28, 2012. At January 28, 2012, a total of \$80.0 million was available to us from these facilities.

At January 29, 2011, we had two unsecured credit facilities, which were renewable in August and November 2011. The August facility allowed for borrowings up to \$30.0 million at a rate equal to the higher of prime rate, the federal funds rate plus 0.5% or LIBOR. The November facility allowed for borrowings up to \$50.0 million at a rate of prime plus 2%. There were 10 days during Fiscal 2011, where we incurred borrowings against our credit facilities for

an average and maximum borrowing of \$5.3 million and \$10.8 million, respectively, at an average interest rate of 2.28%. At January 29, 2011, a total of \$80.0 million was available to us from these facilities.

NOTE 6. LEASES

We have entered into capital leases for certain property and technology hardware. At January 28, 2012, the total capital lease obligation was \$2.2 million, of which \$0.2 million was classified as a short-term liability and included in short-term debt and capital lease obligations and \$2.0 million was classified as a long-term liability as obligations under capital leases in our consolidated balance sheet. At January 29, 2011, the total capital lease obligation was \$2.6 million, of which \$0.3 million was classified as a short-term liability and included in short-term debt and capital lease obligations and \$2.3 million was classified as a long-term liability as obligations under capital leases in our consolidated balance sheet. The cost basis of total assets under capital lease obligations at January 28, 2012 and January 29, 2011 was \$2.4 million and \$2.7 million, respectively, with accumulated amortization at January 28, 2012 and January 29, 2011 of \$0.3 million each.

We lease the majority of our retail sporting goods stores under non-cancelable operating leases. The leases typically provide for terms of five to ten years with options to extend at our discretion. Many of our leases contain scheduled increases in annual rent payments and the majority of our leases also require us to pay maintenance, insurance and real estate taxes. Additionally, many of the lease agreements contain tenant improvement allowances, rent holidays and/or rent escalation clauses (contingent rentals) based on net sales for the location. For purposes of recognizing incentives and minimum rental expenses on a straight-line basis over the terms of the leases, we use the date of initial possession to begin amortization, which is generally when we enter the space and begin to make improvements in preparation of our intended use.

Most of our retail store leases contain provisions that allow for early termination of the lease if certain pre-determined annual sales levels are not met. Generally, these provisions allow the lease to be terminated between the third and fifth year of the lease. Should the lease be terminated under these provisions, in some cases, the unamortized portion of any landlord allowances related to that property would be payable to the landlord.

We also lease certain office equipment and transportation equipment under non-cancelable operating leases having initial terms of more than one year.

In February 1996, we entered into a sale-leaseback transaction to finance our distribution center and office facilities. In December 1999, the related operating lease was amended to include the Fiscal 2000 expansion of these facilities. The amended lease rate is \$0.9 million per year and can increase annually with the Consumer Price Index. This lease will expire in December 2014. Future minimum lease payments under this non-cancelable lease aggregate approximately \$2.6 million. The transaction is also subject to quarterly financial covenants based on certain ratios.

During Fiscal 2012, we increased our lease commitments by a net of 34 retail stores, each having initial lease termination dates between September 2015 and April 2022 as well as various office and transportation equipment. At January 28, 2012, the future minimum lease payments under capital leases and the present value of such payments, and the future minimum lease payments under our operating leases, excluding maintenance, insurance and real estate taxes, including the net 34 operating leases added during Fiscal 2012, were as follows (in thousands):

| | Capital | Operating | Total |
|---|----------|------------|------------|
| Fiscal 2013 | \$ 366 | \$ 43,374 | \$ 43,740 |
| Fiscal 2014 | 366 | 36,393 | 36,759 |
| Fiscal 2015 | 366 | 26,563 | 26,929 |
| Fiscal 2016 | 369 | 17,865 | 18,234 |
| Fiscal 2017 | 379 | 11,711 | 12,090 |
| Thereafter | 1,444 | 16,828 | 18,272 |
| Total minimum lease payments | 3,290 | 152,734 | 156,024 |
| Less amount representing interest | 1,045 | - | 1,045 |
| Present value of total minimum lease payments | \$ 2,245 | \$ 152,734 | \$ 154,979 |

Rental expense for all operating leases consisted of the following (in thousands):

| Fiscal Year Ended | | |
|-------------------|-------------|-------------|
| January 28, | January 29, | January 30, |

| | 2012 | 2011 | 2010 |
|--------------------|-----------|-----------|-----------|
| Minimum rentals | \$ 37,971 | \$ 36,294 | \$ 35,455 |
| Contingent rentals | 5,767 | 5,220 | 4,165 |
| | \$ 43,738 | \$ 41,514 | \$ 39,620 |

NOTE 7. DEFINED CONTRIBUTION BENEFIT PLANS

We maintain the Hibbett Sports, Inc. 401(k) Plan (401(k) Plan) for the benefit of our employees. The 401(k) Plan covers all employees who have completed one year of service, worked 1,000 hours and who are at least 18 years of age. Participants of the 401(k) Plan may voluntarily contribute from 1% to 100% of their compensation subject to certain yearly dollar limitations as allowed by law. These elective contributions are made under the provisions of Section 401(k) of the Internal Revenue Code which allows deferral of income taxes on the amount contributed to the 401(k) Plan. The Company's contribution to the 401(k) Plan equals (1) an amount determined at the discretion of the Board of Directors plus (2) a matching contribution equal to a discretionary percentage of up to 6.0% of a participant's compensation. For each of Fiscal 2012, Fiscal 2011 and Fiscal 2010, we matched \$0.75 for each dollar of compensation deferred by the employees up to 6.0% of compensation. Contribution expense incurred under the 401(k) Plan for Fiscal 2012, Fiscal 2011 and Fiscal 2010 was \$0.8 million, \$0.6 million and \$0.4 million, respectively.

We also maintain the Hibbett Sports, Inc. Supplemental 401(k) Plan (Supplemental Plan) for the purpose of supplementing the employer matching contribution and salary deferral opportunity available to highly compensated employees whose ability to receive Company matching contributions and defer salary under our existing 401(k) Plan has been limited because of certain restrictions applicable to qualified plans. The non-qualified deferred compensation Supplemental Plan allows participants to defer up to 40% of their compensation and receive an employer matching contribution equal to \$0.75 for each dollar of compensation deferred, subject to a maximum of 4.5% of compensation and subject to Board discretion. The matching contribution for Fiscal 2013 has been set by the Board to equal no more than \$0.75 for each dollar of compensation deferred under both the 401(k) Plan and the Supplemental Plan up to 6.0% of compensation. Contribution expense incurred under the Supplemental Plan for Fiscal 2012, Fiscal 2011 and Fiscal 2010 was \$0.2 million, \$0.1 million and \$0.1 million, respectively. The Supplemental Plan is intended to comply with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended.

In November 2009, the Board adopted the Hibbett Sports, Inc. Executive Voluntary Deferral Plan (Voluntary Plan) that provides key executives of the Company an opportunity to defer, on a pre-tax basis, up to 50% of their base salary and up to 100% of any bonus earned. Participants, at election, determine the date payout is to be made with payout options as either a lump-sum payout or installment payments over 2 to 10 years. The Voluntary Plan is subject to the Employee Retirement Income Security Act of 1974, as amended (ERISA) and was effective February 1, 2010 and is also intended to comply with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended.

In January 2010, we introduced a Flexible Spending Account Plan (FSA) that allows employees to set aside pre-tax amounts for out-of-pocket health care and dependent care expenses. The health care FSA is subject to ERISA, whereas the dependent care FSA is not. Employees are eligible to participate in the FSA upon meeting eligibility requirements or upon a defined qualifying event, and may enroll annually during an open enrollment period. Plan amounts are determined annually by the employee in advance and are subject to IRS dollar limitations. Employee elections, in general, cannot be increased, decreased or discontinued during the election period. Unused amounts at the end of the plan year are subject to forfeiture and such forfeitures can be used to offset administrative expenses. The first withholdings began in February 2010.

NOTE 8. RELATED-PARTY TRANSACTIONS

The Company leases one store under a lease arrangement with AL Florence Realty Holdings 2010, LLC, a wholly-owned subsidiary of Books-A-Million, Inc., (BAMM). One of our Directors, Terrance G. Finley is an executive officer and stockholder of BAMM and another Director, Albert C. Johnson, is a Director and stockholder of BAMM. The Company and BAMM were previously subject to a sublease agreement that expired in June 2008, but was renewed under a five-year term scheduled to expire in June 2013. The sublease was amended and restated as a direct lease in Fiscal 2012 with minimum annual lease payments of \$111,000, if not in co-tenancy. The minimum annual lease payment under the sublease was \$161,000 in Fiscal 2011 and \$191,000 in Fiscal 2010. There are currently no minimum lease payments under this lease.

NOTE 9. INCOME TAXES

Our effective tax rate is based on our income, statutory tax rates and tax planning opportunities available in the various jurisdictions in which we operate. Significant judgment is required in determining our effective tax rate and in evaluating our tax positions.

A summary of the components of the provision for income taxes is as follows (in thousands):

Fiscal Year Ended

Edgar Filing: HIBBETT SPORTS INC - Form 10-K

| | January 28, 2012 | January 29, 2011 | January 30, 2010 |
|-------------------------------|------------------------|------------------------|------------------------|
| Federal: | | | |
| Current | \$ 30,529 | \$ 24,924 | \$ 19,686 |
| Deferred | 26 | (1,136) | (1,741) |
| | 30,555 | 23,788 | 17,945 |
| State: | | | |
| Current | 3,820 | 3,572 | 2,366 |
| Deferred | (121) | (318) | (510) |
| | 3,699 | 3,254 | 1,856 |
| Provision for income taxes | \$ 34,254 | \$ 27,042 | \$ 19,801 |

A reconciliation of the statutory federal income tax rate as a percentage of income before provision for income taxes follows:

| | Fiscal Year Ended | | | | | |
|---|---------------------|---|---------------------|---|---------------------|---|
| | January 28, 2012 | | January 29, 2011 | | January 30, 2010 | |
| Tax provision computed at the federal statutory rate | 35.00 | % | 35.00 | % | 35.00 | % |
| Effect of state income taxes, net of federal benefits | 2.61 | | 2.48 | | 2.31 | |
| Other, net | (0.90) |) | (0.66) |) | 0.52 | |
| | 36.71 | % | 36.82 | % | 37.83 | % |

In accordance with ASC Topic 740, Income Taxes, deferred income taxes on the consolidated balance sheets result from temporary differences between the amount of assets and liabilities recognized for financial reporting and income tax purposes. The components of the deferred income taxes, net, are as follows (in thousands):

| | January 28, 2012 | | January 29, 2011 | |
|---------------------------|------------------|-------------|------------------|-------------|
| | Current | Non-current | Current | Non-current |
| Deferred rent | \$ 1,458 | \$ 4,664 | \$ 1,620 | \$ 5,166 |
| Inventories | 3,994 | - | 3,744 | - |
| Accruals | 2,593 | 1,433 | 2,421 | 1,069 |
| Stock-based compensation | 989 | 4,125 | 867 | 3,541 |
| Other | 20 | 2 | 19 | 6 |
| Total deferred tax assets | 9,054 | 10,224 | 8,671 | 9,782 |

| | | | | |
|---|----------|----------|----------|----------|
| Accumulated depreciation and amortization | - | (6,682) | - | (6,048) |
| Prepaid expenses | (805) | - | (715) | - |
| Accruals | (72) | - | (71) | - |
| Other | (375) | (126) | (357) | (138) |
| Total deferred tax liabilities | (1,252) | (6,808) | (1,143) | (6,186) |
| Deferred income taxes, net | \$ 7,802 | \$ 3,416 | \$ 7,528 | \$ 3,596 |

Deferred tax assets represent items that will be used as a tax deduction or credit in future tax returns or are items of income that have not been recognized for financial statement purposes but were included in the current or prior tax returns for which we have already properly recorded the tax benefit in the consolidated statements of operations. At least quarterly, we assess the likelihood that the deferred tax assets balance will be recovered. We take into account such factors as prior earnings history, expected future earnings, carryback and carryforward periods and tax strategies that could potentially enhance the likelihood of a realization of a deferred tax asset. To the extent recovery is not more likely than not, a valuation allowance is established against the deferred tax asset, increasing our income tax expense in the year such determination is made. We have determined that no such allowance is required.

We apply the provisions of ASC Subtopic 740-10 in accounting for uncertainty in income taxes. In accordance with ASC Subtopic 740-10, we recognize a tax benefit associated with an uncertain tax position when, in our judgment, it is more likely than not that the position will be sustained upon examination by a taxing authority. For a tax position that meets the more-likely-than-not recognition threshold, we initially and subsequently measure the tax benefit as the largest amount that we judge to have a greater than 50% likelihood of being realized upon ultimate settlement with a

taxing authority. Our liability associated with unrecognized tax benefits is adjusted periodically due to changing circumstances, such as the progress of tax audits, case law developments and new or emerging legislation. Such adjustments are recognized entirely in the period in which they are identified. Our effective tax rate includes the net impact of changes in the liability for unrecognized tax benefits and subsequent adjustments as considered appropriate by management.

We file income tax returns in the U.S. federal and various state jurisdictions. A number of years may elapse before a particular matter for which we have recorded a liability related to an unrecognized tax benefit is audited and finally resolved. Generally, we are not subject to changes in income taxes by the U.S. federal taxing jurisdiction for years prior to Fiscal 2009 or by most state taxing jurisdictions for years prior to Fiscal 2008. While it is often difficult to predict the final outcome or the timing of resolution of any particular tax matter, we believe our liability for unrecognized tax benefits is adequate. Favorable settlement of an unrecognized tax benefit could be recognized as a reduction in our effective tax rate in the period of resolution. Unfavorable settlement of an unrecognized tax benefit could increase the effective tax rate and may require the use of cash in the period of resolution. Our liability for unrecognized tax benefits is generally presented as non-current. However, if we anticipate paying cash within one year to settle an uncertain tax position, the liability is presented as current.

A reconciliation of the unrecognized tax benefit under ASC Topic 740 follows (in thousands):

| | Fiscal Year Ended | | |
|---|---------------------|---------------------|---------------------|
| | January 28, 2012 | January 29, 2011 | January 30, 2010 |
| Unrecognized tax benefits - beginning of year | \$ 3,887 | \$ 2,351 | \$ 2,501 |
| Gross increases - tax positions in prior period | 31 | 264 | 105 |
| Gross decreases - tax positions in prior period | (1,412) | - | - |
| Gross increases - tax positions in current period | 496 | 2,191 | 259 |
| Settlements | (230) | - | - |
| Lapse of statute of limitations | (168) | (919) | (514) |
| Unrecognized tax benefits - end of year | \$ 2,604 | \$ 3,887 | \$ 2,351 |

We classify interest and penalties recognized on unrecognized tax benefits as income tax expense. As of January 28, 2012, January 29, 2011 and January 30, 2010, we have accrued interest and penalties in the amount of \$0.3 million, \$0.3 million and \$0.4 million, respectively. During Fiscal 2012, Fiscal 2011 and Fiscal 2010, we recorded \$0.1 million in each year for the accrual of interest and penalties in the consolidated statement of operations.

Of the unrecognized tax benefits as of January 28, 2012, January 29, 2011 and January 30, 2010, \$1.1 million, \$1.2 million and \$1.0 million, respectively, if recognized, would affect our effective income tax rate.

NOTE 10. COMMITMENTS AND CONTINGENCIES

Annual Bonuses and Equity Incentive Awards

Specified officers and corporate employees of our Company are entitled to annual bonuses, primarily based on measures of Company operating performance. At January 28, 2012 and January 29, 2011, there was \$4.2 million and \$4.1 million, respectively, of annual bonus-related expense included in accrued expenses.

In addition, the Compensation Committee (Committee) of the Board of Directors places performance criteria on awards of PSUs made in the form of RSUs to our NEOs under the EIP. The performance criteria are tied to performance targets with respect to future sales and operating income over a specified period of time. These PSUs are expensed under the provisions of ASC Topic 718 and are evaluated each quarter to determine the probability that the performance conditions set within will be met. We expect the Committee to continue to place performance criteria on awards of RSUs to our NEOs in the future.

Legal Proceedings and Other Contingencies

We are a party to various legal proceedings incidental to our business. We do not believe that any of these matters will, individually or in the aggregate, have a material effect on our business or financial condition. We cannot give assurance, however, that one or more of these lawsuits will not have a material effect on our results of operations for the period in which they are resolved. It is reasonably possible that losses in addition to the amount accrued could be incurred. However, we cannot predict the outcome of these matters or make an estimate of the possible loss or range

of loss based on the information currently available to the Company. At January 28, 2012, we estimate that the liability related to these matters is approximately \$0.3 million and accordingly, have accrued \$0.3 million as a current liability in our consolidated balance sheet. As of January 29, 2011, we had accrued \$0.4 million as it related to our estimated liability for legal proceedings.

The estimates of our liability for pending and unasserted potential claims do not include litigation costs. It is our policy to accrue legal fees when it is probable that we will have to defend against known claims or allegations and we can reasonably estimate the amount of the anticipated expense.

From time to time, we enter into certain types of agreements that require us to indemnify parties against third-party claims under certain circumstances. Generally, these agreements relate to: (a) agreements with vendors and suppliers under which we may provide customary indemnification to our vendors and suppliers in respect to actions they take at our request or otherwise on our behalf; (b) agreements to indemnify vendors against trademark and copyright infringement claims concerning merchandise manufactured specifically for or on behalf of the Company; (c) real estate leases, under which we may agree to indemnify the lessors from claims arising from our use of the property; and (d) agreements with our directors, officers and employees, under which we may agree to indemnify such persons for liabilities arising out of their relationship with us. We have director and officer liability insurance, which, subject to the policy's conditions, provides coverage for indemnification amounts payable by us with respect to our directors and officers up to specified limits and subject to certain deductibles.

If we believe that a loss is both probable and estimable for a particular matter, the loss is accrued in accordance with the requirements of ASC Topic 450, Contingencies. With respect to any matter, we could change our belief as to whether a loss is probable or estimable, or its estimate of loss, at any time.

NOTE 11. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following tables set forth certain unaudited consolidated financial data for the thirteen-week quarters indicated (dollar amounts in thousands, except per share amounts):

| Fiscal Year Ended January 28, 2012 | | | | |
|------------------------------------|------------|------------|------------|------------|
| | First | Second | Third | Fourth |
| Net sales | \$ 203,656 | \$ 153,127 | \$ 185,180 | \$ 190,681 |
| Gross profit | \$ 75,793 | \$ 50,637 | \$ 67,819 | \$ 68,160 |
| Operating income | \$ 34,141 | \$ 9,368 | \$ 24,971 | \$ 25,052 |
| Net income | \$ 21,337 | \$ 5,940 | \$ 15,959 | \$ 15,824 |
| Basic earnings per share | \$ 0.78 | \$ 0.22 | \$ 0.60 | \$ 0.60 |
| Diluted earnings per share | \$ 0.76 | \$ 0.21 | \$ 0.59 | \$ 0.59 |

| Fiscal Year Ended January 29, 2011 | | | | |
|------------------------------------|------------|------------|------------|------------|
| | First | Second | Third | Fourth |
| Net sales | \$ 184,506 | \$ 139,819 | \$ 167,420 | \$ 173,209 |
| Gross profit | \$ 66,109 | \$ 44,775 | \$ 59,059 | \$ 60,459 |
| Operating income | \$ 27,676 | \$ 6,481 | \$ 20,087 | \$ 19,303 |
| Net income | \$ 17,341 | \$ 4,013 | \$ 12,588 | \$ 12,458 |
| Basic earnings per share | \$ 0.60 | \$ 0.14 | \$ 0.45 | \$ 0.45 |
| Diluted earnings per share | \$ 0.59 | \$ 0.14 | \$ 0.44 | \$ 0.44 |

In the opinion of our management, this unaudited information has been prepared on the same basis as the audited information presented elsewhere herein and includes all adjustments necessary to present fairly the information set forth herein. The operating results from any quarter are not necessarily indicative of the results to be expected for any future period.

NOTE 12. FAIR VALUE OF FINANCIAL INSTRUMENTS

ASC Topic 820, Fair Value Measurement, establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The three levels of inputs used to measure fair value are as follows:

- Level I – Quoted prices in active markets for identical assets or liabilities.
- Level II – Observable inputs other than quoted prices included in Level I.
- Level III – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The table below segregates all financial assets and liabilities that are measured at fair value on a recurring basis (at least annually) into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value (in thousands):

| | January 28, 2012 | | | January 29, 2011 | | |
|------------------------|------------------|----------|-----------|------------------|----------|-----------|
| | Level I | Level II | Level III | Level I | Level II | Level III |
| Short-term investments | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| | 1,382 | - | - | 901 | - | - |

Long-term
investments

| | | | | | | |
|-------------|----------|------|------|--------|------|------|
| Total | | | | | | |
| investments | \$ 1,382 | \$ - | \$ - | \$ 901 | \$ - | \$ - |

Long-term investments are reported in other assets in our consolidated balance sheets.

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

Not applicable.

Item 9A. Controls and Procedures.

(a) Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including the Chief Executive Officer and President (principal executive officer) and Chief Financial Officer and Senior Vice President (principal financial officer), as appropriate, to allow timely decisions regarding the required disclosures.

As of January 28, 2012, our management, under the supervision and with the participation of our principal executive officer and principal financial officer, performed an evaluation of the effectiveness of our disclosure controls and procedures (as such term is defined in the Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based upon this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of January 28, 2012.

(b) Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of January 28, 2012, based on the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our evaluation under the framework in Internal Control – Integrated Framework, our management concluded that our internal control over financial reporting was effective as of January 28, 2012.

KPMG LLP, our independent registered public accounting firm, has issued an audit report on the Company's internal control over financial reporting as of January 28, 2012 included in Item 8 herein.

(c) Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting during the fourth quarter of Fiscal 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

We have adopted a Code of Business Conduct and Ethics (Code) for all Company employees, including our Named Executive Officers as determined for our Proxy Statement for the 2012 Annual Meeting of Stockholders (Proxy Statement) to be held on May 24, 2012. We have also adopted a set of Corporate Governance Guidelines (Guidelines) and charters for all of our Board Committees, including the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee. We intend to make all required disclosures regarding any amendment to, or a waiver of, a provision of the Code for Senior Executive and Financial Officers as well as any change or amendments to our Guidelines or committee charters by posting such information on our website. The Code, Guidelines and charters are posted on our website, www.hibbett.com under “Investor Relations.”

The information appearing in the Proxy Statement, relating to the members of the Audit Committee and the Audit Committee financial expert under the caption “Board and Committees of the Board” as well as the information appearing in the Proxy Statement under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” is hereby incorporated by reference.

The balance of the information required in this item is incorporated by reference from the sections entitled “Directors and Executive Officers,” “The Board of Directors,” “Annual Compensation of Executive Officers” and “Related Person Transactions” in the Proxy Statement.

Item 11. Executive Compensation.

The information required in this item is incorporated by reference from the section entitled “Annual Compensation of Executive Officers,” “Compensation Committee Report” and “Compensation Committee Interlocks and Insider Participation” in the Proxy Statement.

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

The information required in this item is incorporated by reference from the sections entitled “Security Ownership of Certain Beneficial Owners,” “Compensation of Non-Employee Directors,” “Annual Compensation of Executive Officers” and “Directors and Executive Officers” in the Proxy Statement.

Equity Compensation Plan Information (1)

| | (a) | (b) | (c) |
|--|---|--|---|
| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (2) | Weighted average exercise price of outstanding options | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (3) |
| Equity compensation plans approved by security holders | 1,174,368 | \$ 23.35 | 1,575,853 |
| Equity compensation plans not approved by security holders | - | - | - |
| TOTAL | 1,174,368 | \$ 23.35 | 1,575,853 |

(1) Information presented as of January 28, 2012.

(2) Includes 457,322 RSUs and 295,850 PSUs that may be awarded if specified targets and/or service periods are met. The weighted average exercise price of outstanding options does not include these awards.

(3) Includes 92,915 shares remaining under our ESPP and 61,147 shares remaining under our NEDEP of which approximately 4,000 shares are subject to purchase in the purchasing period ending March 31, 2012.

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

The information required in this item is incorporated by reference from the section entitled “Related Person Transactions” and “Governance Information” in the Proxy Statement.

Item 14. Principal Accounting Fees and Services.

The information required in this item is incorporated by reference from the section entitled “Independent Registered Public Accounting Firm” and “Proposal Number 2 – Ratification of the Appointment by the Audit Committee of the Board of Directors of KPMG LLP as the Company’s Independent Registered Public Accounting Firm” in the Proxy Statement.

PART IV

Item 15. Exhibits and Consolidated Financial Statement Schedules.

(a) Documents filed as part of this report:

1. Financial Statements. Page

The following Financial Statements and Supplementary Data of the Registrant and Independent Registered Public Accounting Firm’s Report on such Financial Statements are incorporated by reference from the Registrant’s 2012 Annual Report to Stockholders, in Part II, Item 8:

| | |
|---|----|
| <u>Report of Independent Registered Public Accounting Firm</u> | 32 |
| <u>Consolidated Balance Sheets</u> as of January 28, 2012 and January 29, 2011 | 33 |
| <u>Consolidated Statements of Operations</u> for the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010 | 34 |
| <u>Consolidated Statements of Cash Flows</u> for the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010 | 35 |
| <u>Consolidated Statements of Stockholders’ Investment</u> for the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010 | 36 |
| <u>Notes to Consolidated Financial Statements</u> | 37 |

2. Financial Statement Schedules.

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

3. Exhibits.

The Exhibits listed below are the exhibits of Hibbett Sports, Inc. and its wholly owned subsidiaries and are filed as part of, or incorporated by reference into, this report.

| | |
|--------|-------------|
| Number | Description |
|--------|-------------|

Certificates of Incorporation and By-Laws

- 3.1 Certificate of Incorporation of the Company; incorporated herein by reference to Exhibit 3.1 of the Company's Form 8-K filed with the Securities and Exchange Commission on February 15, 2007.
- 3.2 Bylaws of the Registrant, as amended; incorporated herein by reference to Exhibit 3.2 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on June 3, 2010.

Form of Stock Certificate

- 4.1 Form of Common Stock Certificate; attached as Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed on September 26, 2007.

Material Contracts

- 10.1 Amended and Restated Agreement of Lease between Hibbett Sporting Goods, Inc. and AL Florence Realty Holdings 2010, LLC, dated October 3, 2011; incorporated by reference as Exhibit 10.1 to the Registrant's Annual Report on Form 10-K filed herein.
- 10.2 Third Amendment to the Amended and Restated 1996 Stock Option Plan; incorporated by reference as Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 15, 2007.
- 10.3 Amendment to the 1996 Stock Option Plan for Outside Directors; incorporated by reference as Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 15, 2007.
- 10.4 Second Amendment to the 2005 Employee Stock Purchase Plan; incorporated by reference as Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 15, 2007.

- 10.5 Change in Control Severance Agreement; incorporated by reference as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 24, 2008.
- 10.6 Executive Restricted Stock Unit Award Agreement; incorporated by reference as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 11, 2008.
- 10.7 Amended and Restated 2005 Directors Deferred Compensation Plan; incorporated by reference as Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 20, 2008.
- 10.8 Amended and Restated 2006 Executive Cash Bonus Plan; incorporated by reference as Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 20, 2008.
- 10.9 Non-Employee Director Non-Qualified Option Agreement; incorporated by reference as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 17, 2009.
- 10.10 Hibbett Sports, Inc. Executive Voluntary Deferral Plan; incorporated by reference as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 20, 2009.
- 10.11 Hibbett Sports, Inc. 2005 Equity Incentive Plan (as amended and restated); incorporated by reference as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 14, 2011.
- 10.12 Hibbett Sports, Inc. Amended and Restated 2006 Non-Employee Director Equity Plan; incorporated by reference as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 14, 2011.
- 10.13 Master Note – Regions Bank Line of Credit; attached as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed August 19, 2011.
- 10.14 Amendment No. 4 to Loan Document – Bank of America Line of Credit; attached as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed November 18, 2011.

Annual Report to Security Holders

- 13.1 Fiscal 2012 Annual Report to Stockholders.

Subsidiaries of the Registrant

- 21 List of Company's Subsidiaries:

- 1)Hibbett Sporting Goods, Inc., a Delaware Corporation
- 2)Hibbett Team Sales, Inc., an Alabama Corporation
- 3)Sports Wholesale, Inc., an Alabama Corporation
- 4)Hibbett Capital Management, Inc., a Nevada Corporation
- 5)Sports Holdings, Inc., a Nevada Corporation
- 6)Gift Card Services, LLC, a Virginia Limited Liability Corporation
- 7)Hibbett.com, Inc., a Nevada Corporation

Edgar Filing: HIBBETT SPORTS INC - Form 10-K

Consents of Experts and Counsel

| | | |
|------|---|----|
| 23.1 | Consent of Independent Registered Public Accounting Firm (filed herewith) | 57 |
|------|---|----|

Certifications

| | | |
|------|--|----|
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer (filed herewith) | 58 |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer (filed herewith) | 59 |
| 32.1 | Section 1350 Certification of Chief Executive Officer and Chief Financial Officer (filed herewith) | 60 |

Interactive Data Files

101.INS XBRL Instance Document
101.SCH XBRL Taxonomy Extension Schema Document
101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB XBRL Taxonomy Extension Labels Linkbase Document
101.PRE SBRL Taxonomy Extension Presentation Linkbase Document

In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Annual Report on Form 10-K shall not be deemed to be “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act or the Exchange Act, except to the extent expressly set forth by specific reference in such filing.

SIGNATURES.

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

HIBBETT SPORTS, INC.

| | | |
|----------------------|-----|---|
| Date: March 26, 2012 | By: | /s/ Gary A. Smith Gary A. Smith Chief Financial Officer and Senior Vice President (Principal Financial Officer and Chief Accounting Officer) |
|----------------------|-----|---|

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

| Signature | Title | Date |
|--|---|----------------|
| /s/ Jeffry O. Rosenthal Jeffry O. Rosenthal | Chief Executive Officer and President (Principal Executive Officer) | March 26, 2012 |
| /s/ Gary A. Smith Gary A. Smith | Chief Financial Officer and Senior Vice President (Principal Financial Officer and Chief Accounting Officer) | March 26, 2012 |
| /s/ Michael J. Newsome Michael J. Newsome | Executive Chairman of the Board | March 26, 2012 |
| /s/ Alton E. Yother Alton E. Yother | Lead Director | March 26, 2012 |
| /s/ Jane F. Aggers Jane F. Aggers | Director | March 26, 2012 |
| /s/ Terrance G. Finley Terrance G. Finley | Director | March 26, 2012 |
| /s/ Albert C. Johnson | Director | March 26, 2012 |

Albert C. Johnson

| | | |
|------------------------------------|----------|----------------|
| /s/ Carl Kirkland Carl Kirkland | Director | March 26, 2012 |
|------------------------------------|----------|----------------|

| | | |
|--------------------------------------|----------|----------------|
| /s/ Ralph T. Parks Ralph T. Parks | Director | March 26, 2012 |
|--------------------------------------|----------|----------------|

| | | |
|---|----------|----------------|
| /s/ Thomas A. Saunders, III Thomas A. Saunders, III | Director | March 26, 2012 |
|---|----------|----------------|