FINISH LINE INC /IN/
Form 10-Q
September 28, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 1, 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: 0-20184

The Finish Line, Inc.

(Exact name of registrant as specified in its charter)

Indiana	**35-1537210**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
3308 North Mitthoeffer Road Indianapolis, Indiana	**46235**
(Address of principal executive offices)	**(zip code)**

317-899-1022

(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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

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

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

Shares of Class A common stock outstanding at September 14, 2012: 50,833,851

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE FINISH LINE, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands)

	September 1, 2012 (unaudited)	August 27, 2011 (unaudited)	March 3, 2012
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	$ 254,225	$ 289,625	$ 307,494
Accounts receivable, net	9,228	6,575	9,041
Merchandise inventories, net	250,634	229,836	220,405
Other	16,514	6,255	15,808
Total current assets	530,601	532,291	552,748
PROPERTY AND EQUIPMENT:			
Land	1,557	1,557	1,557
Building	42,308	41,676	41,745
Leasehold improvements	222,067	223,256	220,532
Furniture, fixtures and equipment	121,540	118,969	115,798
Construction in progress	35,832	4,540	6,987
	423,304	389,998	386,619
Less accumulated depreciation	265,765	267,798	259,622
	157,539	122,200	126,997
Deferred income taxes	17,508	26,431	16,888
Goodwill	8,503		8,503
Other intangible assets	550		550
Other assets, net	6,712	5,510	5,810
Total assets	$ 721,413	$ 686,432	$ 711,496

See accompanying notes.

THE FINISH LINE, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands)

	September 1, 2012 (unaudited)	August 27, 2011 (unaudited)	March 3, 2012
LIABILITIES AND SHAREHOLDERS EQUITY			
CURRENT LIABILITIES:			
Accounts payable	$ 78,304	$ 104,075	$ 67,246
Employee compensation	16,870	12,899	22,403
Accrued property and sales tax	10,484	8,296	10,312
Income taxes payable	6,704	8,910	13,348
Deferred income taxes	7,403	5,233	7,068
Other liabilities and accrued expenses	19,049	16,446	18,306
Total current liabilities	138,814	155,859	138,683
Deferred credits from landlords	28,898	31,330	30,080
Other long-term liabilities	13,820	14,276	13,196
REDEEMABLE NONCONTROLLING INTEREST	5,248		
SHAREHOLDERS EQUITY:			
Preferred stock, $.01 par value; 1,000 shares authorized; none issued			
Common stock, $.01 par value			
Class A:			
Shares authorized (September 1, 2012 110,000; August 27, 2011 100,000; March 3, 2012 100,000)			
Shares issued (September 1, 2012 59,573; August 27, 2011 58,739; March 3, 2012 58,839)			
Shares outstanding (September 1, 2012 50,216; August 27, 2011 50,608; March 3, 2012 50,795)	596	587	588
Class B:			
Shares authorized (September 1, 2012 0; August 27, 2011 10,000; March 3, 2012 10,000)			
Shares issued and outstanding (September 1, 2012 0; August 27, 2011 671; March 3, 2012 571)		7	5
Additional paid-in capital	214,938	207,906	211,271
Retained earnings	477,064	404,114	445,884
Treasury stock (September 1, 2012 9,357; August 27, 2011 8,131; March 3, 2012 8,044)	(157,965)	(127,647)	(128,211)
Total shareholders equity	534,633	484,967	529,537
Total liabilities and shareholders equity	$ 721,413	$ 686,432	$ 711,496

See accompanying notes.

THE FINISH LINE, INC.

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

(Unaudited)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	September 1, 2012	August 27, 2011	September 1, 2012	August 27, 2011
Net sales	$ 385,011	$ 331,514	$ 704,060	$ 630,988
Cost of sales (including occupancy costs)	250,461	215,180	464,851	411,391
Gross profit	134,550	116,334	239,209	219,597
Selling, general and administrative expenses	94,711	82,076	179,557	158,751
Store closing costs	325	580	420	597
Operating income	39,514	33,678	59,232	60,249
Interest income, net	58	139	129	281
Income before income taxes	39,572	33,817	59,361	60,530
Income tax expense	15,136	12,897	22,844	23,194
Net income	24,436	20,920	36,517	37,336
Net loss attributable to redeemable noncontrolling interest	537		734	
Net income attributable to The Finish Line, Inc.	$ 24,973	$ 20,920	$ 37,251	$ 37,336
Basic earnings per share attributable to The Finish Line, Inc. shareholders	$ 0.49	$ 0.40	$ 0.73	$ 0.70
Basic weighted average shares	50,188	52,357	50,441	52,732
Diluted earnings per share attributable to The Finish Line, Inc. shareholders	$ 0.49	$ 0.39	$ 0.72	$ 0.69
Diluted weighted average shares	50,866	53,143	51,135	53,573
Dividends declared per share	$ 0.06	$ 0.05	$ 0.12	$ 0.10

See accompanying notes.

THE FINISH LINE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Twenty-Six Weeks Ended September 1, 2012	Twenty-Six Weeks Ended August 27, 2011
OPERATING ACTIVITIES:		
Net income	$ 36,517	$ 37,336
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,083	13,384
Deferred income taxes	(285)	(573)
Share-based compensation	3,598	2,406
Loss on disposal of property and equipment	430	628
Excess tax benefits from share-based compensation	(2,033)	(5,119)
Changes in operating assets and liabilities:		
Accounts receivable, net	(187)	3,977
Merchandise inventories, net	(30,229)	(36,331)
Other assets	46	(51)
Accounts payable	11,058	31,295
Employee compensation	(5,533)	(5,617)
Income taxes payable	(6,256)	5,472
Other liabilities and accrued expenses	867	(470)
Deferred credits from landlords	(988)	(3,323)
Net cash provided by operating activities	21,088	43,014
INVESTING ACTIVITIES:		
Additions to property and equipment	(45,142)	(9,719)
Proceeds from disposals of property and equipment	30	17
Cash paid for investment	(1,000)	
Net cash used in investing activities	(46,112)	(9,702)
FINANCING ACTIVITIES:		
Dividends paid to shareholders	(6,138)	(5,337)
Proceeds from issuance of common stock	2,237	11,662
Excess tax benefits from share-based compensation	2,033	5,119
Purchase of treasury stock	(32,377)	(54,454)
Funding of related-party note receivable	(4,000)	
Proceeds from sale of redeemable noncontrolling interest	10,000	
Net cash used in financing activities	(28,245)	(43,010)
Net decrease in cash and cash equivalents	(53,269)	(9,698)
Cash and cash equivalents at beginning of period	307,494	299,323
Cash and cash equivalents at end of period	$ 254,225	$ 289,625

See accompanying notes.

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THE FINISH LINE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements of The Finish Line, Inc., along with its consolidated subsidiaries (individually and collectively referred to as the Company), have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statements. Preparation of the financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation, have been included. Intercompany accounts and transactions have been eliminated in consolidation.

The Company has experienced, and expects to continue to experience, significant variability in sales, net income and merchandise inventories from reporting period to reporting period. Therefore, the results of the interim periods presented herein are not necessarily indicative of the results to be expected for any other interim period or the full year.

These financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company s Annual Report on Form 10-K for the year ended March 3, 2012 (fiscal 2012), as filed with the Securities and Exchange Commission (SEC) on May 2, 2012.

Recent Accounting Pronouncements

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

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

Segment Information

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

	Thirteen Weeks Ended (Unaudited)			
Category	**September 1, 2012**		**August 27, 2011**	
Footwear	$ 337,650	88%	$ 289,786	87%
Softgoods	47,361	12%	41,728	13%

Total	$ 385,011	100%	$ 331,514	100%

	Twenty-Six Weeks Ended (Unaudited)			
Category	**September 1, 2012**		**August 27, 2011**	
Footwear	$ 620,208	88%	$ 555,839	88%
Softgoods	83,852	12%	75,149	12%
Total	$ 704,060	100%	$ 630,988	100%

2. Running Specialty

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

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

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

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

On March 29, 2012, GCPI SR LLC (GCPI) made a $10.0 million strategic investment in Running Specialty. The Company will remain majority owner with a 51% ownership. GCPI has the right to put and the Company has the right to call after March 4, 2017, under certain circumstances, the remaining 49% interest in Running Specialty at an agreed upon price approximating fair value. Also, as part of the transaction, GCPI issued to the Company a $4.0 million related-party promissory note which is collateralized with GCPI s interest in Running Specialty due March 31, 2021 or earlier depending on certain stipulated events in the control of GCPI. The promissory note calls for interest payments based in part on a fixed rate and in part on participation in the value of other investments held by GCPI. The balance of the promissory note and related accrued interest is $4.0 million at September 1, 2012 and has been netted against the redeemable noncontrolling interest.

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

The redeemable noncontrolling interest is classified at historical cost basis, net of the $4.0 million promissory note and related accrued interest and adjusted for cumulative earnings or loss allocations as of September 1, 2012.

3. Fair Value Measurements

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

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

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

Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The Company has cash equivalents in short-term money market funds invested primarily in high-quality tax-exempt municipal instruments. The primary objective of our short-term investment activity is to preserve our capital for the purpose of funding operations and we do not enter into short-term investments for trading or speculative purposes. However, the Company does from time to time evaluate other investment strategies for its cash. The fair values are based on unadjusted quoted market prices for the funds in active markets with sufficient volume and frequency (Level 1). Also included in Level 1 assets are mutual fund investments under the non-qualified deferred compensation plan. The Company estimates the fair value of these investments on a recurring basis using market prices that are readily available.

As of September 1, 2012, the Company had no non-financial assets or non-financial liabilities requiring measurement at fair value.

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

4. Earnings Per Share

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

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

The following is a reconciliation of the numerators and denominators used in computing earnings per share attributable to the Company s common shareholders (in thousands, except per share amounts):

	Thirteen Weeks Ended (unaudited)		Twenty-Six Weeks Ended (unaudited)	
	September 1, 2012	August 27, 2011	September 1, 2012	August 27, 2011
Net income attributable to The Finish Line, Inc.	$ 24,973	$ 20,920	$ 37,251	$ 37,336
Net income attributable to participating securities	202	169	300	298
Net income available to The Finish Line, Inc. shareholders	$ 24,771	$ 20,751	$ 36,951	$ 37,038
Basic earnings per share:				
Weighted-average number of common shares outstanding	50,188	52,357	50,441	52,732
Basic earnings per share	$ 0.49	$ 0.40	$ 0.73	$ 0.70
Diluted earnings per share:				
Weighted-average number of common shares outstanding	50,188	52,357	50,441	52,732
Stock options(a)	678	786	694	841
Diluted weighted-average number of common shares outstanding	50,866	53,143	51,135	53,573
Diluted earnings per share	$ 0.49	$ 0.39	$ 0.72	$ 0.69

(a) The computation of diluted earnings per share excludes options to purchase approximately 0.9 million and 0.4 million shares of common stock in the thirteen weeks ended September 1, 2012 and August 27, 2011, respectively, and 0.8 million and 0.4 million shares of common stock in the twenty-six weeks ended September 1, 2012 and August 27, 2011, respectively, because the impact of such options would have been anti-dilutive.

5. Common Stock

On July 21, 2011, the Company s Board of Directors authorized a stock repurchase program (the Plan) to repurchase up to 5,000,000 shares of the Company s Class A common stock outstanding through December 31, 2014. The Company did not repurchase shares during the thirteen weeks ended September 1, 2012. The Company purchased 1,511,119 shares at an average price of $21.43 per share for an aggregate amount of $32.4 million for the twenty-six weeks ended September 1, 2012. The remaining shares available for repurchase under the Plan are 2,288,981 shares as of September 1, 2012.

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

On July 19, 2012, the Company announced a quarterly cash dividend of $0.06 per share of the Company s Class A common shares. The Company declared dividends of $3.0 million during the thirteen weeks ended September 1, 2012. The cash dividends of $3.0 million were paid on September 17, 2012 to shareholders of record on August 31, 2012 and was included as of September 1, 2012 in Other liabilities and accrued expenses on the Company s consolidated balance sheet. Further declarations of dividends remain at the discretion of the Company s Board of Directors.

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

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This quarterly report on Form 10-Q may contain certain statements that we believe are, or may be considered to be, forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements generally can be identified by use of statements that include phrases such as believe , expect , future , anticipate , intend , plan , foresee , may , should , will , estimates , potential , continue or other similar words or phrases. Similarly, statements that describe our objectives, plans or goals also are forward-looking statements. All of these forward-looking statements are subject to risks and uncertainties that could cause our actual results to differ materially from those contemplated by the relevant forward-looking statement. The principal risk factors that could cause actual performance and future actions to differ materially from the forward-looking statements include, but are not limited to, the Company s reliance on a few key vendors for a majority of its merchandise purchases (including a significant portion from one key vendor);the availability and timely receipt of products; the ability to timely fulfill and ship products to customers; fluctuations in oil prices causing changes in gasoline and energy prices, resulting in changes in consumer spending as well as increases in utility, freight, and product costs; product demand and market acceptance risks; deterioration of macro-economic and business conditions; the inability to locate and obtain or retain acceptable lease terms for the Company s stores; the effect of competitive products and pricing; the availability of products; loss of key employees; execution of strategic growth initiatives (including actual and potential mergers and acquisitions and other components of our capital allocation strategy); and the other risks detailed in the Company s Securities and Exchange Commission filings. Readers are urged to consider these factors carefully in evaluating the forward-looking statements. The forward-looking statements included in this Form 10-Q are made only as of the date of this report and we undertake no obligation to publicly update these forward-looking statements to reflect subsequent events or circumstances.

General

The following discussion and analysis should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations, including Critical Accounting Policies, contained in the Company s Annual Report on Form 10-K for the year ended March 3, 2012.

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

	Thirteen Weeks Ended		**Twenty-Six Weeks Ended**	
Number of Stores:	**September 1, 2012**	**August 27, 2011**	**September 1, 2012**	**August 27, 2011**
Finish Line				
Beginning of period	640	657	637	664
Opened	4		13	
Closed	(6)	(10)	(12)	(17)
End of period	638	647	638	647
Running Company				
Beginning of period	19		19	
Acquired				
Opened				
Closed				
End of period	19		19	
Total				
Beginning of period	659	657	656	664
Acquired				
Opened	4		13	
Closed	(6)	(10)	(12)	(17)
End of period	657	647	657	647

	September 1, 2012	**August 27, 2011**
Square feet information as of:		

Finish Line		
Square feet	3,449,041	3,487,044
Average store size	5,406	5,390
Running Company		
Square feet	60,436	
Average store size	3,181	
Total		
Square feet	3,509,477	3,487,044

Results of Operations

The following tables set forth net sales of the Company by major category for each of the following periods (in thousands):

Category	Thirteen Weeks Ended (Unaudited) September 1, 2012		August 27, 2011	
Footwear	$ 337,650	88%	$ 289,786	87%
Softgoods	47,361	12%	41,728	13%
Total	$ 385,011	100%	$ 331,514	100%

Category	Twenty-Six Weeks Ended (Unaudited) September 1, 2012		August 27, 2011	
Footwear	$ 620,208	88%	$ 555,839	88%
Softgoods	83,852	12%	75,149	12%
Total	$ 704,060	100%	$ 630,988	100%

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

	Thirteen Weeks Ended September 1, 2012 (Unaudited)	August 27, 2011	Twenty-Six Weeks Ended September 1, 2012 (Unaudited)	August 27, 2011
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales (including occupancy costs)	65.0	64.9	66.0	65.2
Gross profit	35.0	35.1	34.0	34.8
Selling, general and administrative expenses	24.6	24.7	25.5	25.1
Store closing costs	0.1	0.2	0.1	0.1
Operating income	10.3	10.2	8.4	9.6
Interest income, net				
Income before income tax	10.3	10.2	8.4	9.6
Income tax expense	3.9	3.9	3.2	3.7
Net income	6.4	6.3	5.2	5.9
Net loss attributable to redeemable noncontrolling interest	0.1		0.1	
Net income attributable to The Finish Line, Inc.	6.5%	6.3%	5.3%	5.9%

THIRTEEN AND TWENTY-SIX WEEKS ENDED SEPTEMBER 1, 2012 COMPARED TO THE THIRTEEN AND TWENTY-SIX WEEKS ENDED AUGUST 27, 2011

Net Sales

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	September 1, 2012	August 27, 2011	September 1, 2012	August 27, 2011
	(dollars in thousands)		(dollars in thousands)	
	(Unaudited)		(Unaudited)	
Net sales	$ 385,011	$ 331,514	$ 704,060	$ 630,988
Comparable store sales increase	12.3%	11.0%	10.3%	8.8%

Net sales increased 16.1% for the thirteen weeks ended September 1, 2012 compared to the thirteen weeks ended August 27, 2011. The increase was attributable to a comparable store sales increase of 12.3% for the thirteen weeks ended September 1, 2012 resulting primarily from an 8.1% increase in store average dollar per transaction, a 4.9% increase in store traffic, and a 29.6% increase in digital sales. The increase in net sales also included $6.3 million of net sales from Running Specialty for the thirteen weeks ended September 1, 2012, which was acquired on August 31, 2011. Comparable store footwear sales for the thirteen weeks ended September 1, 2012 increased 13.6% while comparable store softgoods sales increased 3.6%.

Net sales increased 11.6% for the twenty-six weeks ended September 1, 2012 compared to the twenty-six weeks ended August 27, 2011. The increase was attributable to a comparable store sales increase of 10.3% for the twenty-six weeks ended September 1, 2012 resulting primarily from a 6.6% increase in store average dollar per transaction, a 3.4% increase in store traffic, and a 28.8% increase in digital sales. The increase in net sales also included $12.3 million of net sales from Running Specialty for the twenty-six weeks ended September 1, 2012. Comparable store footwear sales for the twenty-six weeks ended September 1, 2012 increased 11.2% while comparable store softgoods sales increased 4.0%.

Cost of Sales (Including Occupancy Costs) and Gross Profit

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	September 1, 2012	August 27, 2011	September 1, 2012	August 27, 2011
	(dollars in thousands)		(dollars in thousands)	
	(Unaudited)		(Unaudited)	
Cost of sales (including occupancy costs)	$ 250,461	$ 215,180	$ 464,851	$ 411,391
Gross profit	$ 134,550	$ 116,334	$ 239,209	$ 219,597
Gross profit as a percentage of net sales	35.0%	35.1%	34.0%	34.8%

The 0.1% decrease in gross profit, as a percentage of net sales, for the thirteen weeks ended September 1, 2012 as compared to the thirteen weeks ended August 27, 2011 was due to a 0.1% decrease in product margin, net of shrink, as a percentage of net sales. The decrease in product margin, as a percentage of net sales, was primarily due to digital sales, which typically have a lower overall product margin than stores, increasing as a percentage of total net sales as compared to the prior period.

The 0.8% decrease in gross profit, as a percentage of net sales, for the twenty-six weeks ended September 1, 2012 as compared to the twenty-six weeks ended August 27, 2011 was primarily due to a 0.5% decrease in product margin, net of shrink, as a percentage of net sales, and a 0.3% increase in occupancy costs, as a percentage of net sales. The 0.5% decrease in product margin, as a percentage of net sales, was primarily due to selling a lower proportion of full price product compared to the strong performance in the twenty-six weeks ended August 27, 2011, as well as, digital sales increasing, as a percentage of total net sales, as compared to the prior period. The 0.3% increase in occupancy costs, as a percentage of net sales, reflects more store openings than closings, percentage rent increases due to comparable store sales increases, as well as, longer lease term agreements entered into for some of our best performing stores. In addition, the Company recognized a $2.0 million benefit for landlord audit settlements during the prior period.

Selling, General and Administrative Expenses

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	September 1, 2012	August 27, 2011	September 1, 2012	August 27, 2011
	(dollars in thousands)		(dollars in thousands)	
	(Unaudited)		(Unaudited)	
Selling, general and administrative expenses	$ 94,711	$ 82,076	$ 179,557	$ 158,751
Selling, general and administrative expenses as a percentage of net sales	24.6%	24.7%	25.5%	25.1%

The $12.6 million increase in selling, general and administrative expenses for the thirteen weeks ended September 1, 2012 as compared to the thirteen weeks ended August 27, 2011 was primarily due to the following: 1.) variable costs in fulfillment, freight, and payroll in conjunction with the 29.6% increase in digital sales as well as the increase in store sales; 2.) a 0.3% increase in marketing expense, as a percentage of net sales, to drive traffic to our website and our stores; and 3.) investments to support the Company s omni-channel strategy.

The $20.8 million increase in selling, general and administrative expenses for the twenty-six weeks ended September 1, 2012 as compared to the twenty-six weeks ended August 27, 2011 was primarily due to the following: 1.) variable costs in fulfillment, freight, and payroll in conjunction with the 28.8% increase in digital sales as well as the increase in store sales; 2.) a 0.3% increase in marketing expense, as a percentage of net sales, to drive traffic to our website and our stores; and 3.) investments to support the Company s omni-channel strategy.

Store Closing Costs

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	September 1, 2012	August 27, 2011	September 1, 2012	August 27, 2011
	(dollars in thousands)		(dollars in thousands)	
	(Unaudited)		(Unaudited)	
Store closing costs	$ 325	$ 580	$ 420	$ 597
Store closing costs as a percentage of net sales	0.1%	0.2%	0.1%	0.1%
Number of stores closed	6	10	12	17

Store closing costs represent the non-cash write-off of any property and equipment upon a store closing.

Interest Income, Net

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	September 1, 2012	August 27, 2011	September 1, 2012	August 27, 2011
	(dollars in thousands)		(dollars in thousands)	
	(Unaudited)		(Unaudited)	
Interest income, net	$ 58	$ 139	$ 129	$ 281

The decrease of $0.1 million was due to lower interest rates on lower invested balances during the thirteen and twenty-six weeks ended September 1, 2012 compared to the thirteen and twenty-six weeks ended August 27, 2011.

Income Tax Expense

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	September 1, 2012	August 27, 2011	September 1, 2012	August 27, 2011
	(dollars in thousands)		(dollars in thousands)	
	(Unaudited)		(Unaudited)	
Income tax expense	$ 15,136	$ 12,897	$ 22,844	$ 23,194
Income tax expense as a percentage of net sales	3.9%	3.9%	3.2%	3.7%
Effective income tax rate	38.2%	38.1%	38.5%	38.3%

The increase in the effective tax rate for the thirteen and twenty-six weeks ended September 1, 2012 compared to the thirteen and twenty-six weeks ended August 27, 2011 relates to the Company s ability to record a tax benefit only on its share of the Running Specialty loss while 100% of the Running Specialty loss is included in income before income tax.

Redeemable Noncontrolling Interest

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	September 1, 2012	August 27, 2011	September 1, 2012	August 27, 2011
	(dollars in thousands)		(dollars in thousands)	
	(Unaudited)		(Unaudited)	
Net loss attributable to redeemable noncontrolling interest	$ 537	$	$ 734	$
	0.1%	%	0.1%	%

Net loss attributable to redeemable noncontrolling interest as a percentage of net sales

Net losses attributable to the redeemable noncontrolling interest for the thirteen weeks ended September 1, 2012 represents 49% of the net loss generated by Running Specialty.

Net losses attributable to the redeemable noncontrolling interest for the twenty-six weeks ended September 1, 2012, represents 49% of the net loss generated by Running Specialty since March 29, 2012, which was the date of the investment by GCPI.

Net income attributable to The Finish Line, Inc.

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	September 1, 2012	August 27, 2011	September 1, 2012	August 27, 2011
	(dollars in thousands)		(dollars in thousands)	
	(Unaudited)		(Unaudited)	
Net income attributable to The Finish Line, Inc. shareholders	$ 24,973	$ 20,920	$ 37,251	$ 37,336
Net income attributable to The Finish Line, Inc. shareholders as a percentage of net sales	6.5%	6.3%	5.3%	5.9%
Net income attributable to The Finish Line, Inc. shareholders per diluted share	$ 0.49	$ 0.39	$ 0.72	$ 0.69

The $4.1 million increase in net income attributable to The Finish Line, Inc. shareholders for the thirteen weeks ended September 1, 2012 compared to the thirteen weeks ended August 27, 2011 was primarily due to the improvement in net sales.

The $0.1 million decrease in net income attributable to The Finish Line, Inc. for the twenty-six weeks ended September 1, 2012 compared to the twenty-six weeks ended August 27, 2011 was primarily due to the decrease in product margin, the increase in occupancy costs, along with the investments to support the Company s omni-channel strategy within selling, general and administrative expenses, mostly offset by net sales improvement.

Liquidity and Capital Resources

The Company s primary source of working capital is cash-on-hand and cash flow from operations. The following table sets forth material balance sheet and liquidity measures of the Company (in thousands):

	September 1, 2012 (Unaudited)	August 27, 2011 (Unaudited)	March 3, 2012
Cash and cash equivalents	$ 254,225	$ 289,625	$ 307,494
Merchandise inventories, net	$ 250,634	$ 229,836	$ 220,405
Interest-bearing debt	$	$	$
Working capital	$ 391,787	$ 376,432	$ 414,065

Operating Activities

The Company had cash flows provided by operating activities during the twenty-six weeks ended September 1, 2012 of $21.1 million compared to $43.0 million for the twenty-six weeks ended August 27, 2011. The decrease in net cash provided by operating activities was primarily a result of a smaller increase in accounts payable to support an increase in merchandise inventories during the twenty-six weeks ended September 1, 2012 as compared to a larger increase in accounts payable in the twenty-six weeks ended August 27, 2011 due to timing of vendor payments. Cash equivalents are invested in short-term money market funds invested primarily in high-quality tax-exempt municipal instruments with daily liquidity.

Consolidated inventories increased 9.0% at September 1, 2012 compared to August 27, 2011, and were 13.7% higher than at March 3, 2012. Finish Line inventories increased 6.3% at September 1, 2012 compared to August 27, 2011 and increased 12.8% from March 3, 2012. The increase over the prior year is to support the positive comparable store sales.

Investing Activities

Net cash used in investing activities for the twenty-six weeks ended September 1, 2012 was $46.1 million compared to $9.7 million for the twenty-six weeks ended August 27, 2011. The increase in cash used in investing activities was primarily a result of an increase in capital expenditures over the twenty-six weeks ended August 27, 2011 of $35.4 million related to 13 new stores, the remodeling of existing stores, digital investments, store technology and core merchandising, supply chain and CRM system investments.

For the fiscal year ending March 2, 2013, the Company anticipates opening approximately 30 new stores (13 were opened during the twenty-six weeks ended September 1, 2012), remodeling 30 to 35 existing stores (13 were remodeled during the twenty-six weeks ended September 1, 2012), and closing 15 to 20 stores (12 were closed during the twenty-six weeks ended September 1, 2012). The Company expects capital expenditures for the current fiscal year to approximate $80 to $90 million ($45.1 million during the twenty-six weeks ended September 1, 2012). The source of funds for these capital expenditures is expected to be the Company s cash and cash equivalents on-hand.

Financing Activities

Net cash used in financing activities for the twenty-six weeks ended September 1, 2012 was $28.2 million compared to $43.0 million for the twenty-six weeks ended August 27, 2011. The $14.8 million decrease in cash used in financing activities is due to a $22.1 million decrease in stock repurchases and proceeds from the sale of redeemable noncontrolling interest of $10.0 million related to Running Specialty, offset partially by a $9.4 million decrease in proceeds received from the issuance of common stock in connection with employee stock programs and funding of a related party note receivable for $4.0 million.

On July 21, 2011, the Company s Board of Directors authorized a stock repurchase program (the Plan) to repurchase up to 5,000,000 shares of the Company s Class A common stock outstanding through December 31, 2014. The Company did not repurchase any shares during the thirteen weeks ended September 1, 2012. The Company purchased 1,511,119 shares at an average price of $21.43 per share for an aggregate amount of $32.4 million for the twenty-six weeks ended September 1, 2012. The remaining shares available for repurchase under the Plan are 2,288,981 shares as of September 1, 2012.

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

On July 19, 2012, the Company announced a quarterly cash dividend of $0.06 per share of the Company s Class A common shares. The Company declared dividends of $3.0 million during the thirteen weeks ended September 1, 2012. The cash dividends of $3.0 million were paid on September 17, 2012 to shareholders of record on August 31, 2012 and was included as of September 1, 2012 in Other liabilities and accrued expenses on the Company s consolidated balance sheet. Further declarations of dividends remain at the discretion of the Company s Board of Directors.

Recent Accounting Pronouncements

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

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

Contractual Obligations

The Company s contractual obligations primarily consist of operating leases and purchase orders for merchandise inventory. For the twenty-six weeks ended September 1, 2012, there were no significant changes to the Company s contractual obligations from those identified in the Company s Annual Report on Form 10-K for the fiscal year ended March 3, 2012, other than those which occur in the normal course of business (primarily changes in the Company s merchandise inventory related to purchase obligations, which fluctuate throughout the year as a result of the seasonal nature of the Company s operations, and changes to operating leases due to store openings and closings.)

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to adopt accounting policies related to estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period, as well as the related disclosure of contingent assets and liabilities at the date of the financial statements. On an ongoing basis, management evaluates its accounting policies, estimates and judgments, including those related to inventories, long lived assets and contingencies. Management bases its estimates and judgments on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For a discussion of the Company s market risk associated with interest rates as of March 3, 2012, see Quantitative and Qualitative Disclosures about Market Risk in Item 7A of Part II of the Company s Annual Report on Form 10-K for the fiscal year ended March 3, 2012. For the twenty-six weeks ended September 1, 2012, there has been no significant change in related market risk factors.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures. With the participation of our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), as of the end of the period covered by this Report. Based upon such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures were effective in ensuring that (i) information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities Exchange Commission s rules and forms and (ii) information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Internal Control Over Financial Reporting. There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this Report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is subject, from time to time, to certain legal proceedings and claims in the ordinary course of conducting its business. Although it is not possible to predict with certainty the eventual outcome of any litigation, in the opinion of management, the Company s legal proceedings are not expected to have a material adverse effect on the Company s financial position or results of operations.

ITEM 1A. RISK FACTORS

Risk factors that affect the Company s business and financial results are discussed in Item 1A: Risk Factors in the Company s Annual Report on Form 10-K for the fiscal year ended March 3, 2012. There has been no significant change to identified risk factors for the twenty-six weeks ended September 1, 2012.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On July 21, 2011, the Company s Board of Directors authorized a stock repurchase program (the Plan) to repurchase up to 5,000,000 shares of the Company s Class A common stock outstanding through December 31, 2014. The Company did not repurchase shares during the thirteen weeks ended September 1, 2012. The Company purchased 1,511,119 shares at an average price of $21.43 per share for an aggregate amount of $32.4 million for the twenty-six weeks ended September 1, 2012. The remaining shares available for repurchase under the Plan are 2,288,981 shares as of September 1, 2012.

As previously disclosed, on July 20, 2012, all of the Company s shares of Class B common stock were converted on a one-for-one basis into an equal number of shares of Class A common stock in accordance with the terms of the Company s Restated Articles of Incorporation, and the Company eliminated its dual class stock structure. The Company did not receive any proceeds from the conversion of the Class B shares, and the Company will not receive any proceeds from the sale of any Class A shares issued as a result of the conversion. Because the Class B shares were issued in exchange for an existing security of the Company and no commission or other remuneration was paid or given, directly or indirectly, for soliciting the conversion, the Class A shares issuable upon the conversion of the Class B shares were securities included in the exemption from registration provided by Section 3(a)(9) of the Securities Act of 1933, as amended. The Company registered the resale of the Class A shares issuable upon the conversion of the Class B shares pursuant to a registration statement on Form S-3 filed by the Company with the Securities and Exchange Commission on July 11, 2012.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

(a) Exhibits

31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act, as amended.
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a 14(a) and 15d-14(a) of the Securities Exchange Act, as amended.
32	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from The Finish Line, Inc. s Form 10-Q for the quarterly period ended September 1, 2012, formatted in an XBRL Interactive Data File: (i) Consolidated Balance Sheets-unaudited; (ii) Consolidated Statements of Income-unaudited; (iii) Consolidated Statements of Cash Flows-unaudited; and (iv) Notes to Consolidated Financial Statements-unaudited, with detailed tagging of notes and financial statement schedules.*

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

SIGNATURES

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

THE FINISH LINE, INC.

Date: September 28, 2012	By:	/s/ Edward W. Wilhelm **Edward W. Wilhelm** **Executive Vice President, Chief Financial Officer**

Exhibit Index

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