FINISH LINE INC /DE/
Form 10-Q
September 28, 2001

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 thirteen week period ended September 1, 2001

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)

Delaware	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 telephonenumber, including area code)

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

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[X] No[_]

Shares of common stock outstanding at September 21, 2001:

Class A 19,797,178

Class B 4,362,442

PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE FINISH LINE, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands)

ASSETS	September 1, 2001 (Unaudited)	March 3, 2001
CURRENT ASSETS:		
Cash and cash equivalents	$ 80,058	$ 45,422
Marketable securities	5,517	6,513
Accounts receivable	9,068	3,476
Merchandise inventories	146,574	145,503
Other	8,825	7,233
Total current assets	250,042	208,147
PROPERTY AND EQUIPMENT:		
Land	315	315
Building	10,571	10,486
Leasehold improvements	94,465	91,657
Furniture, fixtures, and equipment	44,451	41,515
Construction in progress	1,739	2,849
	151,541	146,822
Less accumulated depreciation	59,187	52,348
	92,354	94,474
OTHER ASSETS:		
Deferred income taxes	6,832	6,247
Total assets	$349,228	$308,868

See accompanying notes.

THE FINISH LINE, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands)

September 1,

LIABILITIES AND STOCKHOLDERS' EQUITY	2001 (Unaudited)
CURRENT LIABILITIES:	
Accounts payable	$ 78,835
Employee compensation	4,409
Accrued property and sales tax	5,898
Deferred income taxes	4,288
Other liabilities and accrued expenses	9,793
Total current liabilities	103,223
Long-term deferred rent payments	8,204
STOCKHOLDERS' EQUITY:	
Preferred stock, $.01 par value; 1,000 shares authorized; none issued	--
Common stock, $.01 par value	
Class A:	
Shares authorized - 30,000	
Shares issued (September 1, 2001 - 21,980; March 3, 2001 - 20,022) Shares outstanding (September 1, 2001 - 20,060; March 3, 2001 - 18,203)	220
Class B:	
Shares authorized - 12,000	
Shares issued and outstanding (September 1, 2001 - 4,362; March 3, 2001 - 6,268)	44
Additional paid-in capital	123,131
Retained earnings	129,531
Accumulated other comprehensive income	34
Treasury stock (September 1, 2001 - 1,920; March 3, 2001- 1,841)	(15,159)
Total stockholders' equity	237,801
Total liabilities and stockholders' equity	$ 349,228

See accompanying notes.

3

THE FINISH LINE, INC.
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)
(Unaudited)

	Thirteen Weeks Ended		Twenty-
	September 1, 2001	August 26, 2000	September 2001

Net sales	$ 196,776	$ 190,542	$ 357,601
Cost of sales (including occupancy expense)	137,922	137,296	258,292
Gross profit	58,854	53,246	99,309
Selling, general, and administrative expenses	43,494	42,207	83,290
Repositioning charge reversal	--	--	(660
Operating income	15,360	11,039	16,679
Interest income - net	458	169	938
Income before income taxes	15,818	11,208	17,617
Provision for income taxes	5,694	4,147	6,342
Net income	$ 10,124	$ 7,061	11,275
Basic net income per share	$ .41	$ .29	$ .46
Basic weighted average shares	24,400	24,492	24,421
Diluted net income per share	$ .41	$ .29	$ .46
Diluted weighted average shares	24,777	24,703	24,716

See accompanying notes.

THE FINISH LINE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands) - (Unaudited)

	Twenty-Six Week September 1, 2001
OPERATING ACTIVITIES:	
Net Income	$ 11,275
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	8,205
Contribution of treasury stock to pension plan	--
Repositioning Charge Reversal	(660)
Deferred income taxes	2,797
Loss on disposal of property and equipment	4
Changes in operating assets and liabilities:	
Accounts receivable	(5,592)
Merchandise inventories	(1,071)
Other current assets	(1,592)
Other assets	--
Accounts payable	25,385
Employee compensation	(2,231)
Accrued income taxes	(245)

Other liabilities and accrued expenses	3,085
Deferred rent payments	590
Net cash provided by operating activities	39,950
INVESTING ACTIVITIES:	
Purchases of property and equipment	(7,055)
Proceeds from disposal of property and equipment	966
Proceeds from maturity of available-for-sale marketable securities	1,018
Proceeds from sale of available-for-sale marketable securities	--
Net cash used in investing activities	(5,071)
FINANCING ACTIVITIES:	
Proceeds from short-term debt	--
Principal payments on short-term and long-term debt	--
Proceeds and tax benefits from exercise of stock options	383
Common stock repurchased	(626)
Net cash used in financing activities	(243)
Net increase in cash and cash equivalents	34,636
Cash and cash equivalents at beginning of period	45,422
Cash and cash equivalents at end of period	$ 80,058

See accompanying notes

5

The Finish Line, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements of The Finish Line, Inc. and its wholly-owned subsidiary Spike's Holding, Inc. (collectively the "Company") have been prepared in accordance with accounting principles generally accepted in the United States 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 accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation, have been included.

The Company has experienced, and expects to continue to experience, significant variability in sales and net income from quarter to quarter. 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.

Except for the historical information contained herein, the matters discussed in this filing are forward looking statements that involve risks and uncertainties that could cause actual results to differ materially from those expressed in any of the forward looking statements. Such risks and uncertainties include, but are not limited to, product demand and market acceptance risks, the effect of economic conditions, the effect of competitive products and pricing, the availability of products, management of growth, the Company's ability to successfully execute and benefit from its repositioning plan, and the other risks detailed in the Company's Securities and Exchange Commission filings.

These financial statements should be read in conjunction with the financial statements and notes thereto for the year ended March 3, 2001.

Throughout this document, the term "fiscal 2002" refers to the Company's current fiscal year which ends March 2, 2002.

2. Repositioning Reserves

In the 4/th/ quarter of fiscal 2001 the Company approved a repositioning plan and recorded a pre-tax non-recurring charge totaling $19,809,000. Those charges included inventory markdowns, lease buyouts and asset impairment charges for 17 planned store closings, and asset impairment charges for 14 identified under-performing stores.

As of September 1, 2001, the Company has completed 10 of the 17 planned store closures. The Company has made payments of $284,000 against the lease obligation reserve and recorded a reduction of the lease obligation reserve of $660,000 as a change in estimate as a result of the successful negotiation of lease termination costs on two stores. The remaining $2,862,000 lease obligation reserve represents expected future lease obligations after store closure for the 7 stores that are to be closed in fiscal 2002.

The reserve for inventory markdowns was reduced by a net of $10,987,000 for the twenty-six weeks ended September 1, 2001 as the Company sold and liquidated aged inventory below cost. This reduction to the reserve is net of an additional $502,000 charge to cost of sales to record additional markdowns on inventory to reflect it at its net realizable value.

6

ITEM 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

The following table and subsequent discussion sets forth operating data of the Company as a percentage of net sales for the periods indicated below. The following discussion and analysis should be read in conjunction with the unaudited Financial Statements included elsewhere herein.

	Thirteen Weeks Ended		Twen
	September 1, 2001	August 26, 2000	Septem 200
	(Unaudited)		
Income Statement Data:			
Net sales	100.0%	100.0%	100
Cost of sales (including occupancy expenses)	70.1	72.1	72
Gross profit	29.9	27.9	27
Selling, general and administrative expenses	22.1	22.1	23

Repositioning charge reversal	--	--	(
Operating income	7.8	5.8	4
Interest income - net	.2	.1	
Income before income taxes	8.0	5.9	5
Provision for income taxes	2.9	2.2	1
Net income	5.1%	3.7%	3

Thirteen Weeks Ended September 1, 2001 Compared to Thirteen Weeks Ended August 26, 2000

Net sales increased 3.3% to $196.8 million for the thirteen weeks ended September 1, 2001 from $190.5 million for the thirteen weeks ended August 26, 2000. This increase in net sales was primarily attributable to the one week shift in the calendar due to last fiscal year's 53 week retail calendar which benefited sales by approximately $5.1 million for the thirteen weeks ended September 1, 2001 by extending one week further into the back to school selling period. As of September 1, 2001, the number of stores in operation increased 2.8% to 445 from 433 at August 26, 2000. During the thirteen weeks ended September 1, 2001, the Company's comparable store sales decreased 2.3% compared to the same period in the prior year. Comparable net footwear sales for the thirteen weeks ended September 1, 2001, increased approximately .8%, while comparable net activewear and accessories sales for the comparable period decreased approximately 16.6%. Activewear and accessories continue to be negatively affected by the transition to new merchandising strategies undertaken by the new apparel buying group.

Gross profit for the thirteen weeks ended September 1, 2001 was $58.9 million, an increase of $5.6 million over the thirteen weeks ended August 26, 2000. During this same period, gross profit increased to 29.9% of net sales versus 27.9% for the prior year. Of this 2.0% increase, 2.4% was due to increased

margin for products sold which was partially offset by a .4% increase in occupancy costs as a percentage of net sales. Product margins were positively affected by the reduction of aged inventories through the Company's repositioning plan.

Selling, general and administrative expenses increased $1.3 million (3.0%) to $43.5 million (22.1% of net sales) for the thirteen weeks ended September 1, 2001 from $42.2 million (22.1% of net sales) for the thirteen weeks ended August 26, 2000. This dollar increase was primarily attributable to the operating costs related to operating 12 additional stores at September 1, 2001 versus August 26, 2000.

Net interest income was $458,000 (.2% of net sales) for the thirteen weeks ended September 1, 2001, compared to net interest income of $169,000 (.1% of net sales) for the thirteen weeks ended August 26, 2000, an increase of $289,000. This increase was the result of increased invested cash balances for the thirteen weeks ended September 1, 2001 compared to the same period of the prior year.

The Company's provision for income taxes increased $1.5 million for the thirteen weeks ended September 1, 2001. The increase is due to the increased level of income before income taxes for the thirteen weeks ended September 1, 2001, offset by a decrease in the effective tax rate to 36.0% for the thirteen weeks ended September 1, 2001 from 37.0% for the thirteen weeks ended August 26, 2000.

Net income increased 43.4% to $10.1 million for the thirteen weeks ended September 1, 2001 compared to $7.1 million for the thirteen weeks ended August 26, 2000. Diluted net income per share increased 41.4% to $.41 for the thirteen weeks ended September 1, 2001 compared to diluted net income per share of $.29 for the thirteen weeks ended August 26, 2000. Diluted weighted average shares outstanding were 24,777,000 and 24,703,000 respectively, for the thirteen weeks ended September 1, 2001 and August 26, 2000.

Twenty-Six Weeks Ended September 1, 2001 Compared to Twenty-Six Weeks Ended August 26, 2000

Net sales increased 6.1% ($20.4 million) to $357.6 million for the twenty-six weeks ended September 1, 2001 from $337.2 million for the twenty-six weeks ended August 26, 2000. Of this increase, $10.7 million was attributable to a 2.8% increase in the number of stores open (26 stores opened less 14 stores closed) during the period from 433 at August 26, 2000 to 445 at September 1, 2001. The balance of the increase was due to a $7.0 million increase in net sales from the 25 stores open only part of the twenty-six weeks of last year, along with a comparable store sales increase of 1.2% for the twenty-six weeks ended September 1, 2001. Comparable net footwear sales for the twenty-six weeks ended September 1, 2001 increased approximately 4.1%. Comparable net activewear and accessories decreased approximately 12.1% for the comparable period. Activewear and accessories continue to be negatively affected by the transition to new merchandising strategies undertaken by the new apparel buying team.

Gross profit for the twenty-six weeks ended September 1, 2001 was $99.3 million, an increase of $5.4 million over the twenty-six weeks ended August 26, 2000. Gross profit was 27.8% of net sales for both comparable periods. For the twenty-six weeks ended September 1, 2001, margin for product sold increased .3% which was offset by a .3% increase in occupancy costs as a percentage of net sales.

Selling, general and administrative expenses increased $6.2 million (8.1%) to $83.3 million (23.3% of net sales) for the twenty-six weeks ended September 1, 2001 from $77.1 million (22.8% of net sales) for the twenty-six weeks ended August 26, 2000. This dollar increase was primarily attributable to the operating costs related to operating 12 additional stores at September 1, 2001 versus August 26, 2000. In addition, prior year selling, general and administrative expenses were net of a $493,000 settlement of an insurance claim related to a store fire.

8

In connection with the repositioning plan the Company established a reserve for future lease payments for store closures of $3.8 million which was included in accrued expenses at March 3, 2001. The accrued expense was reduced $944,000 in the twenty-six weeks ended September 1, 2001 which represented payments of $284,000 and a decrease in the expected future lease store closure obligation of $660,000. The reserve is reviewed periodically to determine its adequacy.

Net interest income was $938,000 (.3% of net sales) for the twenty-six weeks ended September 1, 2001, compared to net interest income of $392,000 (.1% of net sales) for the twenty-six weeks ended August 26, 2000, an increase of $546,000. This increase was the result of increased invested cash balances due to the Company's progress with the liquidation of aged inventory and an increase in accounts payable due to timing.

The Company's provision for federal and state income taxes decreased $33,000 to $6.3 million for the twenty-six weeks ended September 1, 2001 from $6.4 million for the twenty-six weeks ended September 1, 2001. The decrease is due to a decrease in the effective tax rate to 36.0% for the twenty-six weeks ended September 1, 2001 from 37.0% for the twenty-six weeks ended August 26, 2000 which was partially offset by the increased level of income before income taxes for the twenty-six weeks ended September 1, 2001.

Net income increased 3.9% to $11.3 million for the twenty-six weeks ended September 1, 2001 compared to $10.9 million for the twenty-six weeks ended August 26, 2000. Diluted net income per share increased 4.5% to $.46 for the twenty-six weeks ended September 1, 2001 compared to diluted net income per share of $.44 for the twenty six weeks ended August 26, 2000. Diluted weighted average shares outstanding were 24,716,000 and 24,684,000, respectively, for the periods ended September 1, 2001 and August 26, 2000.

Liquidity and Capital Resources

The Company generated cash of $39.9 million from its operating activities during the twenty-six weeks ended September 1, 2001 as compared to $38.1 million during the twenty-six weeks ended August 26, 2000.

The Company had a net use of cash from its investing activities of $5.1 million and $5.2 million for the twenty-six weeks ended September 1, 2001 and August 26, 2000, respectively. In fiscal 2002, $7.1 million was used primarily for construction of new stores and remodeling of existing stores. This was partially offset by $1.0 million net maturities of marketable securities.

Merchandise inventories were $146.6 million at September 1, 2001 compared to $145.5 million at March 3, 2001 and $162.7 million at August 26, 2000. On a per square foot basis, merchandise inventories at September 1, 2001 decreased 11.5% compared to August 26, 2000. Although merchandise inventories as of September 1, 2000 were significantly reduced on a per square foot basis, management believes levels are adequate primarily due to less aged inventory resulting from executing the Company's repositioning plan.

The Company had working capital of $146.8 million at September 1, 2001, an increase of $13.2 million from $133.6 million at March 3, 2001.

At September 1, 2001 the Company had cash and cash equivalents of $80.1 million, marketable securities of $5.5 million and no interest bearing debt. Cash equivalents are primarily invested in taxable instruments with maturities of one to twenty-eight days. Marketable securities range in maturity from 90 days to three years and are primarily invested in tax exempt municipal obligations. Marketable securities are classified as available-for-sale and are available to support current operations.

9

As previously announced, the Company's expansion plans are to increase its retail square footage by approximately 1-2% for fiscal 2002. Management believes that cash on hand and marketable securities, operating cash flow and the Company's existing $60,000,000 bank facility, which expires on September 20, 2003, will provide sufficient capital to complete the Company's fiscal 2002 store expansion program and to satisfy the Company's other capital requirements through fiscal 2002.

10

PART II - OTHER INFORMATION

ITEM 1: Legal Proceedings

None.

ITEM 2: Changes in Securities

None.

ITEM 3: Defaults Upon Senior Securities

None.

ITEM 4: Submission of Matters to a Vote of Security-Holders

(a) The 2001 Annual Meeting of Stockholders was held on July 19, 2001.

(b) The following directors were elected to serve until the 2002 Annual Meeting of Stockholders or until their successors have been duly elected and qualified. Of the 13,476,039 shares (1 vote per share) of Class A common stock and the 6,267,375 shares (10 votes per share) of Class B common stock represented at the meeting, the directors were elected by the following votes:

	Number Of Votes Received	
Name	For	Against
Alan H. Cohen	75,523,599	626,190
David I. Klapper	75,547,099	602,690
Larry J. Sablosky	75,523,599	626,190
Jonathan K. Layne	76,072,214	77,575
Jeffrey H. Smulyan	76,072,114	77,675
Stephen Goldsmith	76,131,702	18,087
Bill Kirkendall	76,135,214	14,575

ITEM 5: Other Information

None.

ITEM 6: Exhibits and Reports on Form 8-K:

(a) Exhibits

None

(b) Reports on Form 8-K
The Company filed a report on Form 8-K on September 13, 2001 with respect to a press release issued by the Company on September 10, 2001 regarding certain management changes.

11

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 27, 2001

By: /s/ Kevin S. Wampler

Kevin S. Wampler
Senior Vice President - Chief Accounting Officer and Assistant Secretary

12