

FINISH LINE INC /IN/  
Form 10-Q  
June 26, 2015

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended May 30, 2015

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

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The Finish Line, Inc.  
(Exact name of registrant as specified in its charter)

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|                                                                   |                                            |
|-------------------------------------------------------------------|--------------------------------------------|
| Indiana                                                           | 35-1537210                                 |
| (State or other jurisdiction of<br>incorporation or organization) | (I.R.S. Employer<br>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.)

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

Indicate by check mark 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 | <input checked="" type="checkbox"/>                                    | Accelerated filer         | <input type="checkbox"/> |
| Non-accelerated filer   | <input type="checkbox"/> (Do not check if a smaller reporting company) | Smaller reporting company | <input type="checkbox"/> |

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

The number of shares of the registrant's Class A Common Stock outstanding on June 12, 2015 was 44,871,651.

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

## THE FINISH LINE, INC.

## CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

|                                    | May 30,<br>2015<br>(unaudited) | May 31,<br>2014<br>(unaudited) | February 28,<br>2015 |
|------------------------------------|--------------------------------|--------------------------------|----------------------|
| <b>ASSETS</b>                      |                                |                                |                      |
| Current assets:                    |                                |                                |                      |
| Cash and cash equivalents          | \$82,193                       | \$196,583                      | \$149,569            |
| Accounts receivable, net           | 16,222                         | 16,839                         | 16,663               |
| Merchandise inventories, net       | 323,319                        | 294,990                        | 343,403              |
| Income taxes receivable            | 13                             | —                              | 8,963                |
| Other                              | 18,193                         | 9,687                          | 12,059               |
| Total current assets               | 439,940                        | 518,099                        | 530,657              |
| Property and equipment:            |                                |                                |                      |
| Land                               | 1,557                          | 1,557                          | 1,557                |
| Building                           | 43,645                         | 42,848                         | 43,637               |
| Leasehold improvements             | 250,665                        | 242,731                        | 248,399              |
| Furniture, fixtures, and equipment | 191,945                        | 170,661                        | 187,404              |
| Construction in progress           | 102,326                        | 66,702                         | 102,944              |
|                                    | 590,138                        | 524,499                        | 583,941              |
| Less accumulated depreciation      | 314,765                        | 295,777                        | 309,581              |
| Total property and equipment, net  | 275,373                        | 228,722                        | 274,360              |
| Goodwill                           | 44,187                         | 29,458                         | 34,719               |
| Other assets, net                  | 9,830                          | 8,422                          | 10,119               |
| Total assets                       | \$769,330                      | \$784,701                      | \$849,855            |

See accompanying notes.

THE FINISH LINE, INC.  
CONSOLIDATED BALANCE SHEETS - (CONTINUED)  
(in thousands, except per share data)

|                                                                                               | May 30,<br>2015<br>(unaudited) | May 31,<br>2014<br>(unaudited) | February 28,<br>2015 |
|-----------------------------------------------------------------------------------------------|--------------------------------|--------------------------------|----------------------|
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                                   |                                |                                |                      |
| Current liabilities:                                                                          |                                |                                |                      |
| Accounts payable                                                                              | \$79,576                       | \$105,803                      | \$133,053            |
| Employee compensation                                                                         | 13,440                         | 13,243                         | 19,093               |
| Accrued property and sales tax                                                                | 8,816                          | 8,743                          | 10,499               |
| Income taxes payable                                                                          | —                              | 5,523                          | —                    |
| Deferred income taxes                                                                         | 4,943                          | 3,017                          | 6,215                |
| Other liabilities and accrued expenses                                                        | 28,791                         | 26,032                         | 28,637               |
| Total current liabilities                                                                     | 135,566                        | 162,361                        | 197,497              |
| Commitments and contingencies                                                                 |                                |                                |                      |
| Deferred credits from landlords                                                               | 29,964                         | 28,674                         | 29,143               |
| Deferred income taxes                                                                         | 21,247                         | 1,216                          | 21,182               |
| Other long-term liabilities                                                                   | 12,291                         | 20,416                         | 12,299               |
| Redeemable noncontrolling interest, net                                                       | 35                             | 561                            | 90                   |
| Shareholders' equity:                                                                         |                                |                                |                      |
| Preferred stock, \$.01 par value; 1,000 shares authorized; none issued                        | —                              | —                              | —                    |
| Common stock, \$.01 par value; 110,000 shares authorized; 60,145 shares issued                |                                |                                |                      |
| Shares outstanding—(May 30, 2015 – 44,874; May 31, 2014 – 47,769; February 28, 2015 – 46,052) | 601                            | 601                            | 601                  |
| Additional paid-in capital                                                                    | 228,847                        | 220,219                        | 227,006              |
| Retained earnings                                                                             | 643,498                        | 576,198                        | 633,910              |
| Treasury stock—(May 30, 2015 – 14,884; May 31, 2014 – 11,989; February 28, 2015 – 13,706)     | (302,719)                      | (225,545)                      | (271,873)            |
| Total shareholders' equity                                                                    | 570,227                        | 571,473                        | 589,644              |
| Total liabilities and shareholders' equity                                                    | \$769,330                      | \$784,701                      | \$849,855            |
| See accompanying notes.                                                                       |                                |                                |                      |

THE FINISH LINE, INC.  
CONSOLIDATED STATEMENTS OF INCOME  
(in thousands, except per share data)  
(unaudited)

|                                                                               | Thirteen Weeks Ended |                 |
|-------------------------------------------------------------------------------|----------------------|-----------------|
|                                                                               | May 30,<br>2015      | May 31,<br>2014 |
| Net sales                                                                     | \$443,394            | \$406,531       |
| Cost of sales (including occupancy costs)                                     | 304,418              | 277,651         |
| Gross profit                                                                  | 138,976              | 128,880         |
| Selling, general, and administrative expenses                                 | 116,457              | 108,896         |
| Impairment charges and store closing costs                                    | 168                  | 2,314           |
| Operating income                                                              | 22,351               | 17,670          |
| Interest (expense) income, net                                                | (2                   | ) 7             |
| Income before income taxes                                                    | 22,349               | 17,677          |
| Income tax expense                                                            | 8,615                | 7,022           |
| Net income                                                                    | 13,734               | 10,655          |
| Net loss attributable to redeemable noncontrolling interest                   | 55                   | 1,780           |
| Net income attributable to The Finish Line, Inc.                              | \$13,789             | \$12,435        |
|                                                                               |                      |                 |
| Basic earnings per share attributable to The Finish Line, Inc. shareholders   | \$0.30               | \$0.26          |
| Basic weighted average shares                                                 | 45,436               | 47,929          |
|                                                                               |                      |                 |
| Diluted earnings per share attributable to The Finish Line, Inc. shareholders | \$0.30               | \$0.25          |
| Diluted weighted average shares                                               | 45,719               | 48,360          |
|                                                                               |                      |                 |
| Dividends declared per share                                                  | \$0.09               | \$0.08          |
| See accompanying notes.                                                       |                      |                 |

THE FINISH LINE, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)  
(unaudited)

|                                                                                                     | Thirteen Weeks Ended |                 |
|-----------------------------------------------------------------------------------------------------|----------------------|-----------------|
|                                                                                                     | May 30,<br>2015      | May 31,<br>2014 |
| Operating activities:                                                                               |                      |                 |
| Net income                                                                                          | \$13,734             | \$10,655        |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities:         |                      |                 |
| Impairment charges and store closing costs                                                          | 168                  | 2,314           |
| Depreciation and amortization                                                                       | 10,095               | 9,644           |
| Deferred income taxes                                                                               | (1,207)              | (1,131)         |
| Loss on disposals of property and equipment                                                         | 19                   | 252             |
| Gain on settlement of contingent consideration                                                      | (329)                | —               |
| Share-based compensation                                                                            | 2,390                | 2,127           |
| Excess tax benefits from share-based compensation                                                   | (133)                | (1,046)         |
| Changes in operating assets and liabilities:                                                        |                      |                 |
| Accounts receivable, net                                                                            | 441                  | (769)           |
| Merchandise inventories, net                                                                        | 20,717               | 10,574          |
| Other assets                                                                                        | (5,601)              | 8,395           |
| Accounts payable                                                                                    | (46,250)             | (11,954)        |
| Employee compensation                                                                               | (5,653)              | (11,026)        |
| Income taxes payable                                                                                | 9,072                | (1,129)         |
| Other liabilities and accrued expenses                                                              | (2,979)              | (2,687)         |
| Deferred credits from landlords                                                                     | 821                  | 1,016           |
| Net cash (used in) provided by operating activities                                                 | (4,695)              | 15,235          |
| Investing activities:                                                                               |                      |                 |
| Capital expenditures for property and equipment                                                     | (18,879)             | (20,614)        |
| Acquisitions, net of cash acquired                                                                  | (8,278)              | (4,674)         |
| Proceeds from disposals of property and equipment                                                   | 16                   | 7               |
| Net cash used in investing activities                                                               | (27,141)             | (25,281)        |
| Financing activities:                                                                               |                      |                 |
| Dividends paid to shareholders                                                                      | (4,193)              | (3,895)         |
| (Payments) proceeds from issuance of common stock, net of settlement of tax withholding obligations | (176)                | 3,962           |
| Excess tax benefits from share-based compensation                                                   | 133                  | 1,046           |
| Purchases of treasury stock                                                                         | (31,304)             | (18,653)        |
| Purchase of redeemable noncontrolling interest                                                      | —                    | (9,000)         |
| Proceeds from repayment of related-party promissory note                                            | —                    | 4,090           |
| Net cash used in financing activities                                                               | (35,540)             | (22,450)        |
| Net decrease in cash and cash equivalents                                                           | (67,376)             | (32,496)        |
| Cash and cash equivalents at beginning of period                                                    | 149,569              | 229,079         |
| Cash and cash equivalents at end of period                                                          | \$82,193             | \$196,583       |
| Supplemental disclosure of noncash operating and investing activities:                              |                      |                 |
| Capital expenditures incurred but not yet paid as of May 30, 2015 and May 31, 2014                  | \$5,684              | \$5,520         |
| Capital expenditures incurred but not yet paid as of February 28, 2015 and March 1, 2014            | \$13,532             | \$9,200         |
| See accompanying notes.                                                                             |                      |                 |



## 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 the 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. All intercompany transactions and balances have been eliminated.

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 February 28, 2015 (“fiscal 2015”), as filed with the Securities and Exchange Commission (“SEC”) on April 29, 2015.

**Segment Information.** The Company is a premium retailer of athletic shoes, apparel, and accessories for men, women, and kids, throughout the United States and Puerto Rico, through multiple operating segments. The Company’s operating segments have similar economic characteristics, which include a similar nature of products sold, type of customer, and method of distribution. As such, 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):

| Category        | Thirteen Weeks Ended |     |              |           |     |   |
|-----------------|----------------------|-----|--------------|-----------|-----|---|
|                 | May 30, 2015         |     | May 31, 2014 |           |     |   |
| Footwear        | \$402,179            | 91  | %            | \$369,194 | 91  | % |
| Softgoods       | 41,215               | 9   | %            | 37,337    | 9   | % |
| Total net sales | \$443,394            | 100 | %            | \$406,531 | 100 | % |

**Recent Accounting Pronouncements.** 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.

## 2. Acquisitions and Goodwill

During the thirteen weeks ended May 30, 2015, the Company completed one immaterial acquisition of assets for total consideration of \$8.9 million. The entity from which the assets were acquired operated four specialty running stores in New York. In connection with this acquisition, the Company recorded goodwill of \$8.8 million during the thirteen weeks ended May 30, 2015. Goodwill is deductible for U.S. federal income tax purposes.

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

|                                     | Allocation of<br>Purchase Price |
|-------------------------------------|---------------------------------|
| Goodwill                            | \$8,816                         |
| Tangible assets, net of liabilities | 115                             |
| Total purchase price                | \$8,931                         |



During fiscal 2015, the Company completed seven individually immaterial acquisitions of assets for total consideration of \$11.4 million, net of cash acquired. A component of the consideration for two of the acquisitions included contingent consideration with an estimated fair value of \$0.7 million, which is included within other liabilities and accrued expenses on

the consolidated balance sheets. The Company determined the estimated fair values based on discounted cash flow analyses and estimates made by management. The entities from which the assets were acquired operated 20 specialty running stores in Colorado, Indiana, Kansas, Michigan, Missouri, North Carolina, and Utah. In connection with these acquisitions, the Company recorded goodwill of \$9.7 million.

During the thirteen weeks ended May 30, 2015, the Company made the final working capital payments for two of the fiscal 2015 acquisitions, which did not have a material effect on the preliminary purchase price allocation. The Company allocated the aggregated preliminary purchase prices based upon the tangible and intangible assets acquired, net of liabilities. The allocation of the preliminary purchase prices for the fiscal 2015 acquisitions is detailed below (in thousands):

|                                     | Allocation of<br>Purchase Price |
|-------------------------------------|---------------------------------|
| Goodwill                            | \$9,719                         |
| Tangible assets, net of liabilities | 1,699                           |
| Total purchase price                | \$11,418                        |

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

|                                 | Goodwill |
|---------------------------------|----------|
| Balance as of March 1, 2014     | \$25,608 |
| Acquisitions                    | 9,067    |
| Other                           | 44       |
| Balance as of February 28, 2015 | 34,719   |
| Acquisitions                    | 8,816    |
| Other                           | 652      |
| Balance as of May 30, 2015      | \$44,187 |

### 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 Company to develop its own assumptions.

The following table provides a summary of the recognized assets and liabilities that are measured at fair value on a recurring basis (in thousands):

|                                          | May 30, 2015 |         |         | May 31, 2014 |         |         | February 28, 2015 |         |         |
|------------------------------------------|--------------|---------|---------|--------------|---------|---------|-------------------|---------|---------|
|                                          | Level 1      | Level 2 | Level 3 | Level 1      | Level 2 | Level 3 | Level 1           | Level 2 | Level 3 |
| Assets:                                  |              |         |         |              |         |         |                   |         |         |
| Non-qualified deferred compensation plan | \$6,425      | \$—     | \$—     | \$6,117      | \$—     | \$—     | \$6,424           | \$—     | \$—     |
| Liabilities:                             |              |         |         |              |         |         |                   |         |         |
| Contingent consideration liabilities     | \$—          | \$—     | \$441   | \$—          | \$—     | \$2,253 | \$—               | \$—     | \$650   |



Included in Level 1 assets are mutual fund investments under a non-qualified deferred compensation plan. The Company estimates the fair value of these investments on a recurring basis using readily available market prices. Included in Level 3 liabilities are the contingent consideration liabilities related to the Company's acquisitions. The liabilities are adjusted to fair value each reporting period. The categorization of the framework used to price the liabilities is considered Level 3, due to the subjective nature of the unobservable inputs used to determine the fair values.

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

#### Level 3 Valuation Techniques

Financial assets and liabilities are considered Level 3 when their fair values are determined using pricing models, discounted cash flow methodologies, or similar techniques and at least one significant model assumption or input is unobservable.

The following table provides a reconciliation of the Company's Level 3 contingent consideration liabilities during the thirteen weeks ended May 30, 2015 (in thousands):

|                                           | Level 3<br>Liabilities |
|-------------------------------------------|------------------------|
| Balance as of February 28, 2015           | \$650                  |
| Contingent consideration from acquisition | 120                    |
| Settlement of contingent consideration    | (329)                  |
| Balance as of May 30, 2015                | \$441                  |

The Company has certain assets that are measured at fair value on a non-recurring basis and are adjusted to fair value under certain circumstances that include those described in Note 7, Impairment Charges and Store Closing Costs. The categorization used to price the assets is considered a Level 3 measurement due to the subjective nature of the unobservable inputs used to determine the fair value.

Additionally, in connection with the acquisitions and purchase price allocations that are described in Note 2, Acquisitions and Goodwill, the Company recognized the acquired assets and liabilities at fair value. All amounts are recognized as Level 3 measurements due to the subjective nature of the unobservable inputs used to determine the fair values.

#### 4. Debt Agreement

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

Approximately \$2.2 million in stand-by letters of credit were outstanding as of May 30, 2015 under the Amended Credit Agreement. No advances were outstanding under the Amended Credit Agreement as of May 30, 2015. Accordingly, the total revolving credit availability under the Amended Credit Agreement was \$97.8 million as of May 30, 2015.

The Company's ability to borrow monies in the future under the Amended Credit Agreement is subject to certain conditions, including compliance with certain covenants and making certain representations and warranties. The Amended Credit Agreement contains restrictive covenants that limit, among other things, mergers and acquisitions. In addition, the Company must maintain a maximum leverage ratio (as defined in the Amended Credit Agreement) and minimum consolidated tangible net worth (as defined in the Amended Credit Agreement). The Company was in compliance with all such covenants as of May 30, 2015.

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

0.10% and maximum pricing of 0.25%. In addition, the Company is subject to a letter of credit fee based on the Company's leverage ratio with minimum pricing of 0.40% and maximum pricing of 1.25%.

## 5. Earnings Per Share

Basic earnings per share attributable to The Finish Line, Inc. shareholders is calculated by dividing net income attributable to The Finish Line, Inc. associated with common shareholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per share attributable to The Finish Line, Inc. 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 Accounting Standards Codification ("ASC") 260-10, Earnings Per Share.

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

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

|                                                                                           | Thirteen Weeks Ended |              |
|-------------------------------------------------------------------------------------------|----------------------|--------------|
|                                                                                           | May 30, 2015         | May 31, 2014 |
| Net income attributable to The Finish Line, Inc.                                          | \$13,789             | \$12,435     |
| Net income attributable to The Finish Line, Inc. attributable to participating securities | 165                  | 149          |
| Net income attributable to The Finish Line, Inc. available to common shareholders         | \$13,624             | \$12,286     |
| Basic earnings per share attributable to The Finish Line, Inc. shareholders:              |                      |              |
| Weighted-average number of common shares outstanding                                      | 45,436               | 47,929       |
| Basic earnings per share attributable to The Finish Line, Inc. shareholders               | \$0.30               | \$0.26       |
| Diluted earnings per share attributable to The Finish Line, Inc. shareholders:            |                      |              |
| Weighted-average number of common shares outstanding                                      | 45,436               | 47,929       |
| Dilutive effect of potential common shares(a)                                             | 283                  | 431          |
| Diluted weighted-average number of common shares outstanding                              | 45,719               | 48,360       |
| Diluted earnings per share attributable to The Finish Line, Inc. shareholders             | \$0.30               | \$0.25       |

The computation of diluted earnings per share attributable to The Finish Line, Inc. shareholders excludes options to (a) purchase approximately 1.4 million and 0.6 million shares of common stock in the thirteen weeks ended May 30, 2015 and May 31, 2014, respectively, because the impact of such options would have been anti-dilutive.

## 6. Common Stock

On July 21, 2011, the Company's Board of Directors authorized a share repurchase program (the "2011 Share Repurchase Program") to repurchase up to 5,000,000 shares of the Company's common stock outstanding through December 31, 2014. On January 3, 2013, the Company's Board of Directors amended the 2011 Share Repurchase Program (the "2013 Amended Program") and authorized the repurchase of an additional 5,000,000 shares of the Company's common stock, which authorization shall expire on December 31, 2017. On March 26, 2015, the Company's Board of Directors amended the 2013 Amended Program (the "2015 Amended Program") and authorized the repurchase of an additional 5,000,000 shares of the Company's common stock, which authorization shall expire on December 31, 2018.

The Company purchased 1,250,000 shares at an average price of \$25.04 per share for an aggregate amount of \$31.3 million during the thirteen weeks ended May 30, 2015. As of May 30, 2015, there were 4,954,503 shares remaining available to repurchase under the 2015 Amended Program.



As of May 30, 2015, the Company held 14,884,449 shares of its common stock as treasury shares at an average price of \$20.34 per share for an aggregate carrying amount of \$302.7 million. The Company's treasury shares may be issued upon the exercise of employee stock options, under the Employee Stock Purchase Plan, in the form of restricted stock, or for other corporate purposes. The number of shares of common stock reserved for issuance upon the exercise of options, restricted stock, or other awards is limited as defined in the 2002 Stock Incentive Plan of The Finish Line, Inc. (the "2002 Incentive Plan") and The Finish Line, Inc. Amended and Restated 2009 Incentive Plan (the "Amended 2009 Incentive Plan"). 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 April 16, 2015, the Company announced a quarterly cash dividend of \$0.09 per share of the Company's common stock. The Company declared dividends of \$4.2 million during the thirteen weeks ended May 30, 2015. The cash dividends of \$4.2 million were paid on June 15, 2015 to shareholders of record on May 29, 2015 and were included in other liabilities and accrued expenses on the Company's consolidated balance sheet as of May 30, 2015. Further declarations of dividends remain at the discretion of the Company's Board of Directors.

#### 7. Impairment Charges and Store Closing Costs

During the thirteen weeks ended May 30, 2015, the Company recorded \$0.2 million in store closing costs, which represents the non-cash write-off of fixtures and equipment upon a store or shop within a department store closing. The \$2.3 million in impairment charges and store closing costs that were recorded during the thirteen weeks ended May 31, 2014, were primarily the result of a \$2.1 million charge for the write-off of tangible and indefinite-lived intangible assets related to one of the Company's websites, as the Company determined that the website was no longer going to be used for its originally intended purpose. The asset impairment charges were calculated as the difference between the carrying amount of the impaired assets and their estimated future discounted cash flows. Additionally, the Company recorded \$0.2 million in store closing costs during the thirteen weeks ended May 31, 2014.

#### 8. Commitments and Contingencies

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

#### 9. Equity Compensation

##### General

Total share-based compensation expense for the thirteen weeks ended May 30, 2015 and May 31, 2014 was \$2.4 million and \$2.1 million, respectively.

##### Stock Option Activity

Stock options have been granted to non-employee directors, officers, and other key employees. Generally, options outstanding under the 2002 and Amended 2009 Incentive Plans are exercisable at a price equal to the fair market value on the date of grant, vest over four years, and expire ten years after the date of grant. During the thirteen weeks ended May 30, 2015 and May 31, 2014, the Company granted approximately 761,550 and 601,000 options, respectively. The estimated weighted-average fair value of the individual options granted during the thirteen weeks ended May 30, 2015 and May 31, 2014, was \$6.57 and \$8.57, respectively, on the date of the grant. The fair values for all options were determined using a Black-Scholes option-pricing model with the following weighted average assumptions:



|                         | Thirteen Weeks Ended |   |              |   |
|-------------------------|----------------------|---|--------------|---|
|                         | May 30, 2015         |   | May 31, 2014 |   |
| Dividend yield          | 1.49                 | % | 1.20         | % |
| Volatility              | 33.4                 | % | 37.1         | % |
| Risk-free interest rate | 1.41                 | % | 1.73         | % |
| Expected life           | 5.0 years            |   | 5.0 years    |   |

The dividend yield assumption is based on the Company's history and expectation of dividend payouts. The expected volatility assumption is based on the Company's analysis of historical volatility. The risk-free interest rate assumption is based on the average daily closing rates during the period for U.S. treasury notes that have a life which approximates the expected life of the option. The expected life of employee stock options represents the weighted-average period the stock options are expected to remain outstanding based on historical exercise experience. As of May 30, 2015, there was \$10.0 million of total unrecognized compensation cost, net of estimated forfeitures, related to nonvested options. That cost is expected to be recognized over a weighted average period of 2.0 years.

#### Restricted Stock Activity

The Company has granted shares of the Company's common stock to non-employee directors, officers, and other key employees that are subject to restrictions. The restricted stock granted to employees under the 2002 and Amended 2009 Incentive Plans either vest upon the achievement of specified levels of profitability growth over a three-year period or were granted such that they cliff-vest after a three-year period. For performance-based awards, should the profitability criteria not be met over the three-year period, the shares will be forfeited. All restricted stock awards issued to non-employee directors cliff-vest after a one-year period from the grant date. During the thirteen weeks ended May 30, 2015 and May 31, 2014, the Company granted approximately 181,000 and 168,000 restricted shares, respectively.

As of May 30, 2015, there was \$8.1 million of total unrecognized compensation cost, net of estimated forfeitures, related to nonvested restricted stock. That cost is expected to be recognized over a weighted average period of 2.1 years.

# 10. Redeemable Noncontrolling Interest

On March 29, 2012, GCPI SR LLC (“GCPI”) made a \$10.0 million strategic investment in Running Specialty, though the Company remained the majority owner. GCPI has the right to “put” and the Company has the right to “call” after March 4, 2017, under certain circumstances, GCPI’s 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 (the “Promissory Note”), which was 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 called 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 Promissory Note and related accrued interest had no balance at May 30, 2015 and May 31, 2014.

On April 25, 2014, the Company entered into a Membership Interest Purchase Agreement (“Membership Agreement”) with GCPI to increase the Company’s ownership in Running Specialty for a purchase price of \$10.5 million. The Company paid GCPI \$9.0 million of the purchase price in cash at closing after deducting the \$4.1 million balance of the Promissory Note that was due from GCPI to the Company. The remaining \$1.5 million purchase price is due to GCPI upon the earlier of April 30, 2017 or the date of liquidation or consummation of a sale of Running Specialty. The balance of the \$1.5 million liability is included in other long-term liabilities on the consolidated balance sheets. In addition, the Membership Agreement provided an additional “put” to GCPI and “call” to the Company of GCPI’s remaining interest in Running Specialty at an agreed upon price commencing on April 25, 2015 and ending on June 30, 2015, which would close on July 31, 2015.

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 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. As of May 30, 2015 and May 31, 2014, the redeemable noncontrolling interest was measured at historical cost basis.

A rollforward of redeemable noncontrolling interest, net, is detailed below (in thousands):

|                                                                                                                              | Thirteen Weeks Ended |              |
|------------------------------------------------------------------------------------------------------------------------------|----------------------|--------------|
|                                                                                                                              | May 30, 2015         | May 31, 2014 |
| Redeemable noncontrolling interest, net, beginning of period                                                                 | \$90                 | \$1,774      |
| Net loss attributable to redeemable noncontrolling interest                                                                  | (55                  | ) (1,780     |
| Purchase of redeemable noncontrolling interest                                                                               | —                    | (10,500      |
| Proceeds and interest related to the Promissory Note                                                                         | —                    | 4,083        |
| Decrease in The Finish Line, Inc.’s additional paid-in capital for purchase of redeemable noncontrolling membership interest | —                    | 6,984        |
| Redeemable noncontrolling interest, net, end of period                                                                       | \$35                 | \$561        |

## 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 the Company believes 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, but are not limited to, words or phrases such as “believe”, “expect”, “anticipate”, “estimate”, “intend”, “future”, “forecast”, “outlook”, “foresee”, “project”, “potential”, “plan”, “goal”, “will”, “will be”, “continue”, “lead to”, “expand”, “grow”, “confidence”, “could”, “should” or other similar words or phrases. Similarly, statements that describe the Company’s objectives, plans, or goals also are forward-looking statements. All of these forward-looking statements are subject to risks and uncertainties that could cause the Company’s 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; loss of key employees; execution of strategic growth initiatives (including actual and potential mergers and acquisitions and other components of the Company’s capital allocation strategy); cybersecurity risks, including breach of customer data; 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 the Company undertakes 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 February 28, 2015.

The Company is a premium retailer of athletic shoes, apparel, and accessories for men, women, and kids, throughout the United States, through multiple operating segments.

Brick and mortar comparable store sales are sales from Finish Line stores open longer than one year, beginning in the thirteenth month of a store's operation. Expanded stores are excluded from the brick and mortar comparable store sales calculation until the thirteenth month following the re-opening of the store and temporarily closed stores are excluded during the months that the store is closed. This does not include shops within department stores.

Digital comparable sales are the change in sales year over year for the reporting period derived from finishline.com and m.finishline.com.

Finish Line comparable store sales is the aggregation of brick and mortar comparable store sales and digital comparable sales.

Running Specialty comparable store sales are sales from stores open longer than one year or operated longer than one year after being acquired, including e-commerce sales, beginning in the thirteenth month of a store's operation or after it was acquired. Expanded stores are excluded from the Running Specialty comparable store sales calculation until the thirteenth month following the re-opening of the store and temporarily closed stores are excluded during the months that the store is closed.

The following tables set forth store/shop and square feet information for each of the following periods:

|                                         | Thirteen Weeks Ended |              |
|-----------------------------------------|----------------------|--------------|
|                                         | May 30, 2015         | May 31, 2014 |
| Number of stores/shops                  |                      |              |
| Finish Line:                            |                      |              |
| Beginning of period                     | 637                  | 645          |
| Opened                                  | 2                    | 3            |
| Closed                                  | (15)                 | (3)          |
| End of period                           | 624                  | 645          |
| Branded shops within department stores: |                      |              |
| Beginning of period                     | 395                  | 185          |
| Opened                                  | —                    | 77           |
| Closed                                  | —                    | —            |
| End of period                           | 395                  | 262          |
| Running Specialty:                      |                      |              |
| Beginning of period                     | 71                   | 48           |
| Acquired                                | 4                    | 8            |
| Opened                                  | 1                    | 2            |
| Closed                                  | —                    | —            |
| End of period                           | 76                   | 58           |
| Total:                                  |                      |              |
| Beginning of period                     | 1,103                | 878          |
| Acquired                                | 4                    | 8            |
| Opened                                  | 3                    | 82           |
| Closed                                  | (15)                 | (3)          |
| End of period                           | 1,095                | 965          |
| Square feet information                 | May 30, 2015         | May 31, 2014 |
| Finish Line:                            |                      |              |
| Square feet                             | 3,413,420            | 3,512,190    |
| Average store size                      | 5,470                | 5,445        |
| Branded shops within department stores: |                      |              |
| Square feet                             | 422,783              | 294,978      |
| Average shop size                       | 1,070                | 1,126        |
| Running Specialty:                      |                      |              |
| Square feet                             | 275,842              | 199,905      |
| Average store size                      | 3,630                | 3,447        |
| Total:                                  |                      |              |
| Square feet                             | 4,112,045            | 4,007,073    |

## Results of Operations

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

| Category        | Thirteen Weeks Ended |     |              |           |     |   |
|-----------------|----------------------|-----|--------------|-----------|-----|---|
|                 | May 30, 2015         |     | May 31, 2014 |           |     |   |
| Footwear        | \$402,179            | 91  | %            | \$369,194 | 91  | % |
| Softgoods       | 41,215               | 9   | %            | 37,337    | 9   | % |
| Total net sales | \$443,394            | 100 | %            | \$406,531 | 100 | % |

The following table and subsequent discussion set forth operating data of the Company as a percentage of net sales for each of the following periods:

|                                                             | Thirteen Weeks Ended |              |  |   |
|-------------------------------------------------------------|----------------------|--------------|--|---|
|                                                             | May 30, 2015         | May 31, 2014 |  |   |
| Net sales                                                   | 100.0                | % 100.0      |  | % |
| Cost of sales (including occupancy costs)                   | 68.7                 | 68.3         |  |   |
| Gross profit                                                | 31.3                 | 31.7         |  |   |
| Selling, general, and administrative expenses               | 26.2                 | 26.8         |  |   |
| Impairment charges and store closing costs                  | 0.1                  | 0.6          |  |   |
| Operating income                                            | 5.0                  | 4.3          |  |   |
| Interest income, net                                        | —                    | —            |  |   |
| Income before income taxes                                  | 5.0                  | 4.3          |  |   |
| Income tax expense                                          | 1.9                  | 1.7          |  |   |
| Net income                                                  | 3.1                  | 2.6          |  |   |
| Net loss attributable to redeemable noncontrolling interest | —                    | 0.5          |  |   |
| Net income attributable to The Finish Line, Inc.            | 3.1                  | % 3.1        |  | % |

Thirteen Weeks Ended May 30, 2015 Compared to the Thirteen Weeks Ended May 31, 2014  
Net Sales

|                                                   | Thirteen Weeks Ended   |              |
|---------------------------------------------------|------------------------|--------------|
|                                                   | May 30, 2015           | May 31, 2014 |
|                                                   | (dollars in thousands) |              |
| Brick and mortar stores sales                     | \$292,191              | \$295,431    |
| Digital sales                                     | 67,685                 | 49,947       |
| Shops within department stores sales              | 59,522                 | 43,847       |
| Running Specialty sales                           | 23,996                 | 17,306       |
| Total net sales                                   | \$443,394              | \$406,531    |
| Brick and mortar comparable store sales increase  | 0.2                    | % 2.5        |
| Digital comparable sales increase                 | 35.5                   | % 22.9       |
| Finish Line comparable store sales increase       | 5.5                    | % 5.0        |
| Running Specialty comparable store sales decrease | (4.0)                  | )% N/A       |

Net sales increased 9.1% for the thirteen weeks ended May 30, 2015 compared to the thirteen weeks ended May 31, 2014. The increase was attributable to a Finish Line comparable store sales increase of 5.5%, an increase in shops within department stores sales of 35.8%, primarily due to increased shop count, and an increase in Running Specialty sales of 38.7%, primarily due to increased store count, offset partially by a decrease in net sales resulting from a net decrease in Finish Line store count for the thirteen weeks ended May 30, 2015 compared to the thirteen weeks ended May 31, 2014. The Finish Line comparable store sales increase of 5.5% was due to an increase in average dollar per transaction, digital traffic, and digital conversion, partially offset by a decrease in store conversion and store traffic. Consolidated footwear sales increased 8.9% for the thirteen weeks ended May 30, 2015 compared to the thirteen weeks ended May 31, 2014, which was primarily driven by a mid single digit increase in men's, a low twenty percent increase in women's, and a mid single digit increase in kids' footwear sales. Consolidated softgoods sales increased 10.4% for the thirteen weeks ended May 30, 2015 compared to the thirteen weeks ended May 31, 2014.

Cost of Sales (Including Occupancy Costs) and Gross Profit

|                                           | Thirteen Weeks Ended   |              |
|-------------------------------------------|------------------------|--------------|
|                                           | May 30, 2015           | May 31, 2014 |
|                                           | (dollars in thousands) |              |
| Cost of sales (including occupancy costs) | \$304,418              | \$277,651    |
| Gross profit                              | \$138,976              | \$128,880    |
| Gross profit as a percentage of net sales | 31.3                   | % 31.7       |

The 0.4% decrease in gross profit, as a percentage of net sales, for the thirteen weeks ended May 30, 2015 as compared to the thirteen weeks ended May 31, 2014, was primarily due to a 0.2% decrease in product margin, net of shrink, as a percentage of net sales, and a 0.2% increase in occupancy costs, as a percentage of net sales. The 0.2% decrease in product margin, net of shrink, as a percentage of net sales, was primarily the result of higher shrink and being slightly more promotional in the thirteen weeks ended May 30, 2015 compared to the thirteen weeks ended May 31, 2014. The 0.2% increase in occupancy costs, as a percentage of net sales, was primarily due to deleveraging against the comparable store sales increase.

Selling, General, and Administrative Expenses

|                                                                            | Thirteen Weeks Ended   |              |
|----------------------------------------------------------------------------|------------------------|--------------|
|                                                                            | May 30, 2015           | May 31, 2014 |
|                                                                            | (dollars in thousands) |              |
| Selling, general, and administrative expenses                              | \$116,457              | \$108,896    |
| Selling, general, and administrative expenses as a percentage of net sales | 26.2                   | % 26.8       |



The \$7.6 million increase in selling, general, and administrative expenses for the thirteen weeks ended May 30, 2015 as compared to the thirteen weeks ended May 31, 2014, was primarily due to the following: (1) the increased cost associated with store payroll related to the growth in shops within department stores and growth in Running Specialty stores; and (2) variable costs in fulfillment, Macys.com license fees, and payroll in conjunction with the 9.1% increase in consolidated net sales.

#### Impairment Charges and Store Closing Costs

|                                                                         | Thirteen Weeks Ended   |              |  |   |
|-------------------------------------------------------------------------|------------------------|--------------|--|---|
|                                                                         | May 30, 2015           | May 31, 2014 |  |   |
|                                                                         | (dollars in thousands) |              |  |   |
| Impairment charges and store closing costs                              | \$168                  | \$2,314      |  |   |
| Impairment charges and store closing costs as a percentage of net sales | 0.1                    | % 0.6        |  | % |
| Number of stores/shops closed                                           | 15                     | 3            |  |   |

During the thirteen weeks ended May 30, 2015, the Company recorded \$0.2 million in store closing costs, which represent the non-cash write-off of fixtures and equipment upon a store or shop within a department store closing. The \$2.3 million in impairment charges and store closing costs recorded during the thirteen weeks ended May 31, 2014, were primarily the result of a \$2.1 million charge for the write-off of tangible and indefinite-lived intangible assets related to one of the Company's websites, as the Company determined that the website was no longer going to be used for its originally intended purpose. Additionally, the Company recorded \$0.2 million in store closing costs during the thirteen weeks ended May 31, 2014.

#### Interest (Expense) Income, Net

|                                                             | Thirteen Weeks Ended   |              |  |   |
|-------------------------------------------------------------|------------------------|--------------|--|---|
|                                                             | May 30, 2015           | May 31, 2014 |  |   |
|                                                             | (dollars in thousands) |              |  |   |
| Interest (expense) income, net                              | \$(2)                  | \$7          |  |   |
| Interest (expense) income, net as a percentage of net sales | —                      | % —          |  | % |

Interest income is earned on the Company's investments and interest expense is incurred from the unused commitment fee and letter of credit fees related to the Company's Amended and Restated Credit Facility Credit Agreement.

#### Income Tax Expense

|                                                 | Thirteen Weeks Ended   |              |  |   |
|-------------------------------------------------|------------------------|--------------|--|---|
|                                                 | May 30, 2015           | May 31, 2014 |  |   |
|                                                 | (dollars in thousands) |              |  |   |
| Income tax expense                              | \$8,615                | \$7,022      |  |   |
| Income tax expense as a percentage of net sales | 1.9                    | % 1.7        |  | % |
| Effective income tax rate                       | 38.5                   | % 39.7       |  | % |

The decrease in the effective tax rate is a result of a decrease in state tax expense and other non-deductible expenses incurred during the thirteen weeks ended May 30, 2015 compared to the thirteen weeks ended May 31, 2014.



# Net Loss Attributable to Redeemable Noncontrolling Interest

|                                                                                          | Thirteen Weeks Ended   |              |
|------------------------------------------------------------------------------------------|------------------------|--------------|
|                                                                                          | May 30, 2015           | May 31, 2014 |
|                                                                                          | (dollars in thousands) |              |
| Net loss attributable to redeemable noncontrolling interest                              | \$55                   | \$1,780      |
| Net loss attributable to redeemable noncontrolling interest as a percentage of net sales | —                      | % 0.5 %      |

The net loss attributable to redeemable noncontrolling interest represents the noncontrolling owner's portion of the net loss generated by Running Specialty for the applicable period. The decrease for the thirteen weeks ended May 30, 2015 compared to the thirteen weeks ended May 31, 2014 was primarily due to the decrease in the noncontrolling owner's interest in Running Specialty and improved results of Running Specialty.

Net Income Attributable to The Finish Line, Inc.

|                                                                               | Thirteen Weeks Ended                                 |              |
|-------------------------------------------------------------------------------|------------------------------------------------------|--------------|
|                                                                               | May 30, 2015                                         | May 31, 2014 |
|                                                                               | (dollars in thousands, except for per share amounts) |              |
| Net income attributable to The Finish Line, Inc.                              | \$13,789                                             | \$12,435     |
| Net income attributable to The Finish Line, Inc. as a percentage of net sales | 3.1                                                  | % 3.1 %      |
| Diluted earnings per share attributable to The Finish Line, Inc. shareholders | \$0.30                                               | \$0.25       |

The \$1.4 million increase in net income attributable to The Finish Line, Inc. for the thirteen weeks ended May 30, 2015 compared to the thirteen weeks ended May 31, 2014 was primarily due to the increase in net sales and the decrease in impairment charges. These changes were partially offset by a decrease in gross profit as a percentage of net sales, the decrease in net loss attributable to redeemable noncontrolling interest, and the increase in selling, general, and administrative expenses to support the increase in sales in shops within department stores and Running Specialty in the current year.

## Liquidity and Capital Resources

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

|                              | May 30, 2015 | May 31, 2014 | February 28, 2015 |
|------------------------------|--------------|--------------|-------------------|
| Cash and cash equivalents    | \$82,193     | \$196,583    | \$149,569         |
| Merchandise inventories, net | \$323,319    | \$294,990    | \$343,403         |
| Interest-bearing debt        | \$—          | \$—          | \$—               |
| Working capital              | \$304,374    | \$355,738    | \$333,160         |

## Operating Activities

Net cash used in operating activities for the thirteen weeks ended May 30, 2015 was \$4.7 million compared to net cash provided by operating activities of \$15.2 million for the thirteen weeks ended May 31, 2014. This decrease was primarily the result of a decrease in impairment charges and store closing costs and an increase in cash outflow in working capital balances, partially offset by an increase in net income for the thirteen weeks ended May 30, 2015 compared to the thirteen weeks ended May 31, 2014.

At May 30, 2015, the Company had cash and cash equivalents of \$82.2 million. Cash and cash equivalents consist primarily of cash on hand and highly liquid instruments with a maturity of three months or less at the date of purchase. At May 30, 2015, substantially all of the Company's cash was invested in deposit accounts at banks.

Merchandise inventories, net, increased 9.6% at May 30, 2015 compared to May 31, 2014, and decreased 5.8% from February 28, 2015. The increase in merchandise inventories, net over the prior year quarter is primarily related to an increase in inventory due to the expected increase in sales year over year. The decrease in merchandise inventories

from February 28, 2015 is due to seasonality as the Company was building inventory at the end of the Company's fiscal year 2015. The decrease in

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accounts payable from February 28, 2015 is primarily related to the decrease in merchandise inventories and the timing of merchandise inventory receipts.

#### Investing Activities

Net cash used in investing activities for the thirteen weeks ended May 30, 2015 was \$27.1 million compared to \$25.3 million for the thirteen weeks ended May 31, 2014. The increase in cash used in investing activities was primarily the result of a \$3.6 million increase in cash paid for Running Specialty acquisitions, partially offset by a \$1.7 million decrease in capital expenditures in the current year.

The Company intends to invest approximately \$60 million in capital expenditures during the Company's fiscal year 2016. Of this amount, approximately \$25 million is intended for the construction of new brick and mortar stores and the remodeling or repositioning of 65-80 existing brick and mortar stores, including additional brand shops such as Finish Line's Nike Track Club and Brand Jordan, as well as other key brand partnerships for "store-within-store" models. In addition, approximately \$5-8 million is expected to be spent to reposition and expand 75-100 shops within department stores. The remaining \$27-\$30 million to be invested is related primarily to projected capital expenditures for technology investments to support new warehouse management, order management, and Macy's merchandise systems, an upgrade of our digital platform, and enhancements to our customer data and analytics systems. The Company anticipates satisfying all of these capital expenditures through the use of cash-on-hand and operating cash flows.

#### Financing Activities

Net cash used in financing activities for the thirteen weeks ended May 30, 2015 was \$35.5 million compared to \$22.5 million for the thirteen weeks ended May 31, 2014. The \$13.0 million increase in cash used in financing activities was primarily due to a \$12.7 million increase in stock repurchases, a \$4.1 million decrease in proceeds from the issuance of common stock, \$4.1 million of proceeds from the repayment of a related-party promissory note in the prior year, a \$0.9 million decrease in excess tax benefits from share-based compensation, and a \$0.3 million increase in dividends paid to shareholders, partially offset by the purchase of redeemable noncontrolling interest of \$9.0 million in the thirteen weeks ended May 31, 2014.

#### Share Repurchase Program

On July 21, 2011, the Company's Board of Directors authorized a share repurchase program (the "2011 Share Repurchase Program") to repurchase up to 5,000,000 shares of the Company's common stock outstanding through December 31, 2014. On January 3, 2013, the Company's Board of Directors amended the 2011 Share Repurchase Program (the "2013 Amended Program") and authorized the repurchase of an additional 5,000,000 shares of the Company's common stock, which authorization shall expire on December 31, 2017. On March 26, 2015, the Company's Board of Directors amended the 2013 Amended Program (the "2015 Amended Program") and authorized the repurchase of an additional 5,000,000 shares of the Company's common stock, which authorization shall expire on December 31, 2018.

The Company purchased 1,250,000 shares at an average price of \$25.04 per share for an aggregate amount of \$31.3 million during the thirteen weeks ended May 30, 2015. As of May 30, 2015, there were 4,954,503 shares remaining available to repurchase under the 2015 Amended Program.

As of May 30, 2015, the Company held 14,884,449 shares of its common stock as treasury shares at an average price of \$20.34 per share for an aggregate carrying amount of \$302.7 million. The Company's treasury shares may be issued upon the exercise of employee stock options, under the Employee Stock Purchase Plan, in the form of restricted stock, or for other corporate purposes. The number of shares of common stock reserved to be issued upon the exercise of options, restricted stock, or other awards is limited as defined in the 2002 Stock Incentive Plan of The Finish Line, Inc. and The Finish Line, Inc. Amended and Restated 2009 Incentive Plan. 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.

#### Dividends

On April 16, 2015, the Company announced a quarterly cash dividend of \$0.09 per share of the Company's common stock. The Company declared dividends of \$4.2 million during the thirteen weeks ended May 30, 2015, of which \$4.2 million was included in other liabilities and accrued expenses on the Company's consolidated balance sheet as of

May 30, 2015 and was paid on June 15, 2015 to shareholders of record on May 29, 2015. Further declarations of dividends remain at the discretion of the Company's Board of Directors.

#### Contractual Obligations

The Company's contractual obligations primarily consist of operating leases and open purchase orders for merchandise inventory. For the thirteen weeks ended May 30, 2015, 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 year ended February 28, 2015, other than those which occur in the ordinary 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 the Company's 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 February 28, 2015, 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 February 28, 2015. For the thirteen weeks ended May 30, 2015, 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 were no 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 its financial position, results of operations, or cash flows.

## 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 February 28, 2015. There has been no significant change to identified risk factors for the thirteen weeks ended May 30, 2015.

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

On July 21, 2011, the Company's Board of Directors authorized a share repurchase program (the "2011 Share Repurchase Program") to repurchase up to 5,000,000 shares of the Company's common stock outstanding through December 31, 2014. On January 3, 2013, the Company's Board of Directors amended the 2011 Share Repurchase Program (the "2013 Amended Program") and authorized the repurchase of an additional 5,000,000 shares of the Company's common stock, which authorization shall expire on December 31, 2017. On March 26, 2015, the Company's Board of Directors amended the 2013 Amended Program (the "2015 Amended Program") and authorized the repurchase of an additional 5,000,000 shares of the Company's common stock, which authorization shall expire on December 31, 2018.

Details on the shares repurchased under the 2013 and 2015 Amended Programs during the thirteen weeks ended May 30, 2015 are as follows:

| Period                        | Total Number of<br>Shares Purchased | Average Price<br>Paid per Share(1) | Total Number of<br>Shares Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans or Programs | Maximum Number<br>(or<br>Approximate Dollar<br>Value) of Shares that<br>May Yet Be Purchased<br>Under the Program |
|-------------------------------|-------------------------------------|------------------------------------|-------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------|
| March 1, 2015 – April 4, 2015 | 150,000                             | \$ 24.70                           | 150,000                                                                                         | 6,054,503                                                                                                         |
| April 5, 2015 – May 2, 2015   | 1,100,000                           | 25.09                              | 1,100,000                                                                                       | 4,954,503                                                                                                         |
| May 3, 2015 – May 30, 2015    | —                                   | —                                  | —                                                                                               | 4,954,503                                                                                                         |
|                               | 1,250,000                           | \$ 25.04                           | 1,250,000                                                                                       |                                                                                                                   |

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

## Item 3. Defaults Upon Senior Securities

None.

## Item 4. Mine Safety Disclosures

Not applicable.

## Item 5. Other Information

None.

Item 6. Exhibits

(a) Exhibits

| Exhibit Number | Description                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.1           | Employment Agreement of Bill Kirkendall, dated as of April 25, 2014.*                                                                                                                                                                                                                                                                                                                                                                        |
| 10.2           | Employment Agreement of Imran Jooma, dated as of February 9, 2015.*                                                                                                                                                                                                                                                                                                                                                                          |
| 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 May 30, 2015, 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. |
| *              | Management contract or compensatory plan, contract, or arrangement.                                                                                                                                                                                                                                                                                                                                                                          |

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: June 26, 2015

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



EXHIBIT INDEX

| Exhibit<br>Number | Description                                                                                                                                                                                                                                                                                                                                                                                                                                  |
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| 24                |                                                                                                                                                                                                                                                                                                                                                                                                                                              |