

FINISH LINE INC /IN/
Form 10-K
April 25, 2017
Table of Contents

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

FORM 10-K

(Mark One)

☒ Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended February 25, 2017

or

☐ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number 0-20184

THE FINISH LINE, INC.

(Exact name of registrant as specified in its charter)

Indiana 35-1537210

(State of Incorporation) (I.R.S. Employer ID No.)

3308 N. Mitthoeffer Road, Indianapolis, Indiana 46235

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

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

(Title of Each Class)	(Name of each exchange on which registered)
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Class A Common Stock, \$.01 par value	The NASDAQ Stock Market LLC
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Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the

Act. Yes ☐ No ☒

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the

Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

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

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

Large accelerated filer ☒

Accelerated filer ☐

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Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The aggregate market value of the voting Class A Common Stock held by non-affiliates of the registrant, which was based on the closing price on the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$968,186,380. The registrant does not have any outstanding non-voting common equity.

The number of shares of the registrant's Class A Common Stock outstanding as of April 2, 2017 was 40,353,324.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement (to be filed within 120 days after February 25, 2017) for the Annual Meeting of Shareholders to be held on July 13, 2017 (hereinafter referred to as the "2017 Proxy Statement") have been incorporated by reference into Part III of this report.

Table of Contents

PART I

Item 1. Business

General

Throughout this Annual Report on Form 10-K, the 52 weeks ended February 25, 2017, the 52 weeks ended February 27, 2016, and the 52 weeks ended February 28, 2015 are referred to as fiscal 2017, fiscal 2016, and fiscal 2015, respectively.

The Finish Line, Inc., together with its subsidiaries (collectively, the “Company”), is one of the largest specialty retailers in the United States. The Company’s goal is to offer the most relevant products from the best brands in an engaging and exciting shopping environment with knowledgeable staff trained to deliver outstanding customer service. On February 24, 2017, the Company completed the sale of its JackRabbit division to a third party and as a result, has classified JackRabbit’s balance sheet and operating results within discontinued operations.

Throughout this Annual Report on Form 10-K, the term “brick and mortar stores” is used to describe Finish Line stores and the term “digital” is used to describe Finish Line’s e-commerce site, www.finishline.com, and mobile commerce site, m.finishline.com. The brick and mortar stores and digital are collectively referred to as “Finish Line” throughout this Annual Report on Form 10-K.

Finish Line Brand. Finish Line is a premium retailer of athletic shoes, apparel, and accessories. As of April 2, 2017, the Company operated 573 Finish Line stores, which averaged 5,564 square feet, in 44 U.S. states and Puerto Rico. In addition, Finish Line operates an e-commerce site, www.finishline.com, as well as mobile commerce via m.finishline.com. Finish Line carries a large selection of men’s, women’s, and kids’ athletic shoes (“footwear”), as well as an assortment of apparel and accessories (“softgoods”). Brand names offered by Finish Line include Nike, Brand Jordan, adidas, Under Armour, Puma, and many others. Footwear accounted for 93% of Finish Line’s net sales during fiscal 2017.

Under the Finish Line brand, the Company is the exclusive retailer of athletic shoes, both in-store and online, for Macy’s Retail Holdings, Inc., Macy’s Puerto Rico, Inc., and Macys.com, Inc. (collectively, “Macy’s”). The Company is responsible for the athletic footwear assortment, inventory, fulfillment, and pricing at all of Macy’s locations and online at www.macys.com. The Company operates branded and unbranded shops in-store at Macy’s. Branded shops include Finish Line signage within those shops and are staffed by Finish Line employees, while unbranded shops do not include Finish Line signage and are generally serviced by Macy’s employees. There are no differences in the merchandise that is sold, the classification of revenue recorded at retail, or the Company’s operation of the athletic footwear inventory and business between branded and unbranded shops and www.macys.com. As of April 2, 2017, the Company operated Finish Line-branded shops in 374 Macy’s department stores, which averaged 1,407 square feet, in 38 U.S. states, the District of Columbia, and Puerto Rico. Throughout this Annual Report on Form 10-K, the term “shops within department stores” is used to describe the Company’s business operations at Macy’s in-store branded and unbranded shops, as well as online at www.macys.com. Shops within department stores carry men’s, women’s, and kids’ athletic shoes, as well as a small assortment of accessories. Brand names offered by shops within department stores include Nike, Skechers, Converse, Puma, New Balance, adidas, and many others.

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

Operating Strategies

The Company seeks to be the premium athletic shoe, apparel, and accessory retailer and active lifestyle retailer in the markets it serves. To achieve this, the Company has developed the following elements to its operating strategy: **Emphasis on Customer Service and Convenience.** The Company is committed to providing a premium shopping experience that is relevant and rewarding for customers.

Finish Line seeks to achieve this objective in stores by providing convenient mall-based locations that feature a compelling store design with knowledgeable, trained, and courteous customer service professionals as well as a vast selection of fashion-forward and innovative products. In addition, the Company has extended the Finish Line brand to shops within department stores, a majority of which feature Finish Line branding and the same trained and courteous customer service professionals to extend the Finish Line brand to the Macy’s customer.

Through e-commerce and mobile commerce, the Company seeks to provide an easy shopping experience, robust product selection, and outstanding service.

Table of Contents

Product Diversity; Target Customer Appeal. The Company stocks its stores/shops with a combination of the leading and newest brand name merchandise, including in-line offerings and unique products offered exclusively by the Company. The focus is on the Company's stores/shops maintaining their status as a leader in premium athletic shoes, apparel, and accessories for men, women, and kids. Product diversity, in combination with the Company's store/shop formats and commitment to customer service, is intended to attract a core customer (typically age 18-29 for Finish Line and age 30-50 for shops within department stores with a greater focus on females) as well as other key demographics. The Company is focused on offering premium product, which includes the best brands, on-trend styles, and most relevant selection.

Merchandise

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

Category	2017		2016		2015	
	(in thousands)					
Footwear	\$1,715,348	93 %	\$1,619,002	90 %	\$1,550,691	89 %
Softgoods	129,045	7 %	179,980	10 %	200,016	11 %
Total net sales	\$1,844,393	100%	\$1,798,982	100%	\$1,750,707	100%

All merchandising decisions for Finish Line and shops within department stores, including merchandise mix, pricing, promotions, and markdowns, are made at the Company's Customer Central corporate headquarters ("Customer Central"). The merchandising management at Customer Central, along with store/shop sales managers and district sales managers, review the merchandise mix to adapt to trends in the marketplace.

Technology

The Company continues to update its digital sites to enhance their quality and functionality. The Company has committed capital and other resources specifically for its growing digital channel, which includes design and content upgrades, mobile and tablet applications, expanded presence on social media, and platform enhancements.

Finishline.com and related mobile sites are collectively the Company's most visited store/shop with approximately 540,000 visitors per day.

To support the Company's omnichannel commitment as a customer-centric organization, the Company also continuously evaluates and implements improvements to technological platforms, which affect stores/shops, merchandising, planning, allocation, warehouse management, order management, and customer relationship management. These improvements allow the Company to more effectively engage the customer, remain flexible and scalable to support growth, provide integrated service, and have information for real-time decision making.

In fiscal 2015, Finish Line launched a new mobile app and made enhancements to its mobile web experience - all of which continue to be critical to winning with the customer. In fiscal 2016, the Company replaced its existing warehouse and order management system, which has allowed the Company to deliver its products more quickly to its stores/shops and customers, further enhancing the customer experience in store and online. Additionally, during fiscal 2016, the Company made enhancements to its customer data and analytics systems, which will help improve customer engagement by allowing the Company to develop customized communications based on individual preferences. In fiscal 2017, the Company upgraded its digital platform, which increased the website's stability and functionality, invested in enhancements to increase the Company's mobile first strategy, and enhanced the Company's information security.

The Company is focused on creating an omnichannel customer experience which delivers a consistent, seamless brand experience for customers at all touch points – stores, shops within department stores, web, mobile, social media, phone, email, and direct mail.

Table of Contents

Marketing

Finish Line attempts to reach its target audience by using a multifaceted approach to marketing on national, regional, and local levels. Finish Line utilizes its store windows, e-mail, social media, search engine optimization, key word searches, and affiliate programs in its marketing efforts. Shops within department stores collaborate with Macy's on specific marketing approaches, which are generally similar to the marketing approaches utilized by Finish Line. The Company benefits from advertising and promotional assistance from many of its suppliers. This assistance takes the form of cooperative advertising programs, in-store sales incentives, point-of-purchase materials, product training for employees, and other programs. The Company's total net advertising expense was 2.1% and 2.0% of net sales after deducting cooperative reimbursements in fiscal 2017 and 2016, respectively. These percentages fluctuate substantially throughout the year during the different consumer buying seasons. The Company believes that it benefits from the multi-million dollar advertising campaigns of its key suppliers, such as Nike, adidas, and Under Armour. Finish Line has a customer loyalty program called "Winners Circle." Customers earn a \$20 reward certificate for every \$200 they spend at Finish Line within a 12 month period, in addition to receiving special member offers on footwear and softgoods. Finish Line maintains a Winners Circle database with information that it uses to communicate with members regarding key initiatives, product offerings, and promotions. At year-end, the Winners Circle program had 10.5 million active members. Finish Line continues to improve the marketing effectiveness of the Winners Circle program to strengthen Finish Line's relationship with its most loyal customers in order to drive sales.

Merchandising and Distribution

In addition to merchandise procurement for both footwear and softgoods, the merchandising department for the Company is responsible for determining pricing and working with the planning and allocation department to establish appropriate stock levels and product mix. Additionally, the merchandising department is responsible for communicating with store/shop and digital operations to monitor shifts in customer preferences and market trends. The planning and allocation department is responsible for merchandise allocation, inventory movements, and the automated replenishment system. The department acts as the central processing intermediary between the merchandising department, the distribution center, and stores/shops and also tracks the effectiveness of each marketing effort to allow the merchandising and marketing departments to determine the relative success of each promotional program. In addition, the department also manages the implementation of price changes, creation of vendor purchase orders, and determination of inventory levels for each store/shop.

The Company believes that its ability to buy in large quantities directly from suppliers enables it to obtain favorable pricing and trade terms. Currently, the Company purchases product from approximately 60 suppliers and manufacturers of athletic and fashion products, the largest of which (Nike) accounted for approximately 71% and 73% of total Company purchases in fiscal 2017 and 2016, respectively. The Company purchased approximately 93% and 89% of its total merchandise in both fiscal 2017 and 2016, respectively, from its five largest suppliers. The Company and its suppliers use EDI technology to streamline purchasing and distribution operations.

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

Store Operations

The Company's corporate and regional senior management visit the stores/shops regularly to review and receive feedback from the stores/shops related to the implementation of the Company's customer service model, plans, and policies, to monitor operations, and to review inventories and the presentation of merchandise. Accounting and general financial functions for the stores/shops are conducted at Customer Central. Each store/shop has a sales manager, co-sales managers, or team lead that is responsible for supervision and overall operations, one or more assistant sales managers, and additional full and part-time sales associates.

Regional, district, and store sales managers receive a fixed salary (except store managers in California) and are eligible for bonuses, based primarily on sales, payroll, inventory shrink, and other performance goals of the

stores/shops for which they are responsible. All store sales managers in California, team leads, assistant store sales managers, and sales associates are paid on an hourly basis.

Table of Contents

Competition

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

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

Seasonal Business

The Company's business follows a seasonal pattern, peaking over a total of approximately 12 weeks during the back-to-school (mid July through early September) and holiday (Thanksgiving through Christmas) seasons. During fiscal 2017 and 2016, these seasons collectively accounted for approximately 32% and 31%, respectively, of the Company's annual sales.

Employees

As of February 25, 2017, the Company employed a total of approximately 12,700 persons, 3,700 of whom were full-time and 9,000 of whom were part-time. Of this total, approximately 1,100 were employed at Customer Central, the Company's distribution center, and the Company's digital team office in Boulder, Colorado, and approximately 60 were employed as regional vice presidents and district sales managers. Additional part-time employees are typically hired during the back-to-school and holiday seasons. None of the Company's employees are represented by a union, and employee relations are good.

Retirement Plan

The Company sponsors a qualified defined contribution profit sharing plan that has a 401(k) feature. The Company matches 100 percent of employee contributions to the 401(k) plan on the first three percent of an employee's wages and matches an additional 50 percent of employee contributions to the 401(k) plan on the next two percent up to five percent of their wages (maximum of four percent Company match).

Intellectual Property

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

Available Information

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

Table of Contents

Item 1A. Risk Factors

Forward-Looking Statements

Forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) contained in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations,” as well as elsewhere in this Annual Report on Form 10-K, involve risks and uncertainties and are subject to change based on various important factors, many of which may be beyond the Company’s control. Accordingly, future performance and financial results may differ materially from those expressed or implied in any such forward-looking statements. Investors should not place undue reliance on forward-looking statements as a prediction of actual results. You can identify these statements as those that may predict, forecast, indicate, or imply future results, performance, or advancements and by forward-looking words such as, but not limited to, “believe,” “expect,” “anticipate,” “estimate,” “intend,” “future,” “forecast,” “outlook,” “foresee,” “predict,” “potential,” “plan,” “project,” “goal,” “will,” “will be,” “continue,” “lead,” “confidence,” “could,” “should,” “may,” “might,” or any variations of such words or other words or phrases with similar meanings. Forward-looking statements address or describe, among other things, expectations, growth strategies, including plans to open and close stores/shops, projections of future profitability, results of operations, future allocations of capital, including capital expenditures, financial condition, or other “forward-looking” information and may include statements about net sales, product margin, occupancy costs, selling, general, and administrative expenses, operating margins, liquidity, operations, and/or inventory. All of these forward-looking statements are subject to risks, management assumptions, and uncertainties that could cause actual results to differ materially from those contemplated by the relevant forward-looking statements. The forward-looking statements included herein are made only as of the date of this Annual Report on Form 10-K and the Company undertakes no obligation to publicly update these forward-looking statements to reflect subsequent events or circumstances.

Current, recent past, and future economic and financial conditions have caused and/or in the future may cause a decline in consumer spending and may adversely affect the Company’s business, operations, liquidity, financial results, and stock price.

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

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

Additionally, many of the effects and consequences of U.S. and global financial and economic conditions could potentially have a material adverse effect on the Company’s liquidity and capital resources, including the ability to raise additional capital, if needed, or the ability of banks to honor draws on the Company’s credit facility, or could otherwise negatively affect the Company’s business and financial results. Although the Company normally generates funds from operations to pay operating expenses and fund capital expenditures and has a revolving credit agreement in place until November 30, 2021 (which had no borrowings under it other than amounts used for stand-by letters of credit as of February 25, 2017), the ability to continue to meet these cash requirements over the long-term may require access to additional sources of funds, including capital and credit markets. Continuing market volatility, the impact of

government intervention in financial markets, and general economic conditions may adversely affect the ability of the Company to access capital and credit markets.

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

Table of Contents

attractive leased store locations. Current, recent past, and future conditions may also adversely affect the Company's pricing and liquidation strategy.

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

The athletic shoe, apparel, and accessory business is highly competitive. The Company competes for customers, customer service professionals, management and other qualified personnel, locations, merchandise, services, and other important aspects of its business with many other local, regional, and national retailers, as well as many of its own suppliers. Those competitors, some of whom have a greater market presence than the Company, include traditional brick and mortar store-based retailers, Internet and digital businesses, and other forms of retail commerce. A factor in the Company's success is its ability to differentiate itself from its competitors. Unanticipated changes in the pricing and other practices of those competitors may adversely affect the Company's performance. The Company cannot guarantee that it will be able to compete successfully against current and/or future companies within its industry and market space.

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

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

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

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

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

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

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

The Company's business is dependent, to a significant degree, upon the ability to purchase premium brand-name merchandise at competitive prices, including the receipt of volume discounts, cooperative advertising, markdown allowances, and the ability to return merchandise to suppliers. The Company purchased approximately 93% of its merchandise in fiscal 2017 from its top five suppliers and expects to continue to obtain a significant percentage of its product from these suppliers in future periods. Approximately 71% of merchandise was purchased from one vendor (Nike). The inability to obtain merchandise in a timely manner from major suppliers (particularly Nike) as a result of business decisions by suppliers or disruptions in the global transportation network such as a port strike, weather conditions, work stoppages, or other labor unrest could have a material adverse effect on the business, financial condition, and results of operations of the Company. Because of the strong dependence on Nike, any adverse development in Nike's distribution strategy, financial condition, or results of operations or the inability of Nike to

develop and manufacture products that appeal to the Company's target customers could also have an adverse effect on the business, financial condition, and results of operations of the Company.

Table of Contents

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

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

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

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

The Company may need to record significant non-cash impairment charges if its long-lived assets become impaired. The Company reviews its property and equipment, including software, when events, which include making decisions that strategically change the intended use of such assets, indicate that their carrying value may be impaired. If an impairment trigger is identified, the carrying value is compared to its estimated fair value and provisions for impairment are recorded as appropriate.

Impairment losses are significantly affected by estimates of future operating cash flows and estimates of fair value.

Estimates of future operating cash flows are identified from strategic long-term plans, which are based upon experience, knowledge, and expectations; however, these estimates can be affected by such factors as future operating results, future store/shop profitability, and future economic conditions, all of which can be difficult to predict accurately. Any significant deterioration in macroeconomic conditions could affect the fair value of our long-lived assets and could result in future impairment charges, which would adversely affect our results of operations.

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

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

The Company's future results may be adversely affected if it is unable to implement its strategic plan and growth initiatives.

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

Table of Contents

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

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

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

The market price of the Company's common stock has historically experienced and may continue to experience volatility. The Company's quarterly operating results, changes in general conditions in the economy or the financial markets, and other developments affecting the Company, its key suppliers, or competitors, could cause the market price of the Company's common stock to fluctuate substantially. Although the U.S. broader stock market has experienced sustained price increases in recent years, significant stock price and volume fluctuations may return depending on national and international macroeconomic factors, changes in monetary policy, or other factors. As we have seen in the recent past, this volatility would likely affect the market prices of securities issued by many companies, often for reasons unrelated to their operating performance, and may adversely affect the price of the Company's common stock.

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

The Company's Board of Directors determines if it is in the best interest of the Company to pay a dividend to its shareholders and the amount of any dividend, and declares all dividend payments. There is no assurance that the Board of Directors will continue to declare dividends in the future or that the Company's results of operations and financial condition will allow for a dividend to be declared. The Company's current share repurchase program, as amended, authorizes the purchase of 5 million shares of the Company's common stock (of which 4.8 million shares were available as of February 25, 2017) through December 31, 2019. However, the Company is not obligated to make any purchases under the share repurchase program and the program may be discontinued at any time.

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

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

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

Table of Contents

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

The efficient operation of the Company's business is dependent on technology and information systems. In particular, the Company relies on information systems to effectively manage sales, distribution, supply chain, and merchandise planning and allocation functions. However, the failure of technology and information systems to perform as designed could disrupt the Company's business and adversely affect sales and profitability. There is the risk that the Company could experience challenges with its information systems due to system implementation issues, which include the replacement of certain management and merchandising systems now and over the next few years, system outages or failures, viruses, cyber extortion, which could lead to denial of service to customers, hackers, or other causes.

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

The Company sells merchandise digitally over the Internet through www.finishline.com and www.macys.com, as well as through mobile commerce at m.finishline.com. The digital operations are subject to numerous risks, including but not limited to, unanticipated operating problems, reliance on third party computer hardware, software, and service providers, system failures, and the need to invest in additional computer and other systems. The digital operations also involve other risks that could have an impact on the Company's results of operations, including hiring, retention, and training of personnel to conduct the digital operations, diversion of sales from the stores/shops, rapid technological changes, liability for online content, credit and debit card fraud, and risks related to the failure of the computer systems that operate the various websites and related support systems, such as computer viruses, cyber extortion, which could lead to denial of service to customers, telecommunication failures, break-ins, security breaches, and similar disruptions. There can be no assurance that the digital operations will continue to operate effectively, achieve sales and profitability growth, or remain at their current or any anticipated levels.

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

Various aspects of the Company's operations are subject to federal, state, or local laws, rules, and regulations, any of which may change from time to time. Sales and results of operations may be adversely affected by new legal requirements, including but not limited to, comprehensive federal health care legislation enacted in 2010, the Fair Labor Standards Act, and attendant regulations. For example, new legislation or regulations may result in increased costs directly for compliance or indirectly to the extent that such requirements increase prices of goods and services because of increased compliance costs. Additionally, the Company is regularly involved in various litigation matters that arise in the ordinary course of doing business. Litigation or regulatory developments could adversely affect the business operations and financial performance of the Company.

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

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

Table of Contents

The Company's shops within department stores operations are reliant on Macy's.

The Company's shops within department stores use selling space within Macy's. These shops within department stores are dependent on the Macy's point of sale and other technological platforms, including those related to www.macys.com. In addition, the Macy's management team, corporate strategy, labor relations (including unionized Macy's labor in two large geographic metropolitan regions in the United States, and marketing and advertising campaigns have an effect on the success of the Company's shops within department stores. The Company has limited influence over these factors, so a strategic shift in any of these factors or a significant disruption in Macy's business, including Macy's store closures, could result in deterioration in the operations of the Company's shops within department stores.

Additionally, the Company needs to obtain and retain shops within department stores in desirable locations. The Company cannot be certain that desirable locations will continue to be available because of the dependence upon Macy's in negotiating the shop locations. Any significant erosion of the relationship with Macy's or its financial condition could negatively affect our ability to obtain and retain shop locations.

The effects of natural disasters, terrorism, acts of war, and public health issues may adversely affect our business. Natural disasters, including earthquakes, hurricanes, floods, and tornadoes, may affect the operations of our stores/shops, information systems, and distribution center. In addition, acts of terrorism, acts of war, and military action both in the United States and abroad can have a significant effect on economic conditions and may negatively affect our ability to purchase merchandise from suppliers for sale to our customers. Public health issues, such as the flu, viruses for which there is currently no known cure, or other pandemics, whether occurring in the United States or abroad, could disrupt our operations and result in a significant part of our workforce being unable to operate or maintain our infrastructure or perform other tasks necessary to conduct our business. Additionally, public health issues may disrupt, or have an adverse effect on, our suppliers' operations, our operations, our customers, or customer demand. Our ability to mitigate the adverse impact of these events depends, in part, upon the effectiveness of our disaster preparedness and response planning as well as business continuity planning. However, we cannot be certain that our plans will be adequate or implemented properly in the event of an actual disaster. We may be required to suspend operations in some or all of our locations, which could have a material adverse effect on our business, financial condition, and results of operations. Any significant declines in public safety or uncertainties regarding future economic prospects that affect customer spending habits could have a material adverse effect on customer purchases of our products.

Potential health care reform efforts under the new administration could significantly affect our business.

In 2010, Congress enacted and the President signed the Patient Protection and Affordable Care Act (the "ACA"), which created comprehensive reform to the health care system in the United States. The ACA contains provisions which, among other things, includes guaranteed coverage requirements, establishes health insurance exchanges to facilitate the purchase of qualified health plans, eliminates pre-existing condition exclusions and annual and lifetime maximum limits, restricts the extent to which policies can be rescinded, imposes new and significant taxes on health insurers and health care benefits, and increases the reporting required to comply with the legislation. The ACA remains subject to continuing legislative scrutiny, including efforts by Congress and the new administration to amend or repeal a number of its provisions, as well as administrative actions delaying the effectiveness of key provisions. If the ACA is repealed or substantially modified, or if implementation of certain aspects of the ACA are delayed, such repeal, modification, or delay may impact our business, financial condition, and results of operations. We are unable to predict the impact of any repeal, modification, or delay of the ACA on us at this time.

Legislative or regulatory initiatives related to global warming and climate change concerns may negatively affect our business.

There has been an increasing focus and significant debate on global climate change, including increased attention from regulatory agencies and legislative bodies. The increased focus may lead to new initiatives directed at regulating an array of environmental matters. Legislative, regulatory, or other efforts in the United States to address climate change could result in future increases in taxes or in the cost of transportation and utilities, which could decrease our operating profits and could necessitate additional investments in facilities and equipment. We are unable to predict the potential effects that any such future environmental initiatives may have on our business.

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

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

Table of Contents

Item 1B. Unresolved Staff Comments

Not applicable.

11

Table of Contents

Item 2. Properties

Customer Central and the Company's distribution center are located on 54 acres in Indianapolis, Indiana. The facility consists of 142,000 square feet of office space and 647,000 square feet of warehouse space. The facility, which is owned by the Company, was designed and constructed to the Company's specifications and includes automated conveyor and storage rack systems, a high speed shipping sorter, and a tilt-tray sortation system. The Company also leases 12,501 square feet of corporate office space for the Company's digital team in Boulder, Colorado.

Store Locations

As of April 2, 2017, the Company operated 947 stores/shops in 46 U.S. states, the District of Columbia, and Puerto Rico. The brick and mortar stores and shops within department stores are primarily located in enclosed shopping malls. The following table sets forth information concerning the Company's stores/shops as of April 2, 2017:

State	Finish Line	Branded shops within department stores	State	Finish Line	Branded shops within department stores
Alabama	8	2	Nebraska	3	
Arizona	12	9	Nevada	5	5
Arkansas	6		New Hampshire	4	2
California	41	87	New Jersey	14	18
Colorado	12	4	New Mexico	3	1
Connecticut	8	8	New York	23	27
Delaware	1	1	North Carolina	14	3
Florida	42	28	North Dakota	2	
Georgia	18	11	Ohio	36	12
Hawaii		4	Oklahoma	5	1
Idaho		1	Oregon	1	6
Illinois	33	13	Pennsylvania	27	13
Indiana	23	6	Rhode Island	1	2
Iowa	7		South Carolina	9	
Kansas	4	2	South Dakota	1	
Kentucky	8	2	Tennessee	14	5
Louisiana	6	3	Texas	58	24
Maine	1	1	Virginia	24	9
Maryland	17	11	Washington	8	18
Massachusetts	13	10	West Virginia	6	
Michigan	19	8	Wisconsin	8	2
Minnesota	9	6	Wyoming	1	
Mississippi	6		District of Columbia		1
Missouri	9	6	Puerto Rico	3	2
				573	374

Finish Line leases all of its stores. Initial lease terms for the Company's stores are generally 10 years in duration without renewal options, although some of the stores are subject to leases for three to five years with one or more renewal options. The leases generally provide for a fixed minimum rental fee plus contingent rent, which is determined as a percentage of gross sales in excess of specified levels. Shops within department stores are operated under a license agreement based on a percentage of sales, which includes a guaranteed minimum license fee in fiscal years 2017 through 2023.

Table of Contents

Item 3. Legal Proceedings

The Company is subject, from time to time, to certain legal proceedings and claims in the ordinary course of conducting its business. The Company 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.

Item 4. Mine Safety Disclosures

Not applicable.

Table of Contents

Item 4.5. Executive Officers of the Registrant

Executive officers of the Company are appointed by and serve at the discretion of the Company's Board of Directors. The following table sets forth certain information regarding the Company's executive officers as of April 25, 2017. No executive officer of the Company has a "family relationship" with any director or other executive officer of the Company, as that term is defined for purposes of this disclosure requirement.

Name	Age	Position	Officer Since
Samuel M. Sato(1)	53	Chief Executive Officer and Director	2007
Melissa Greenwell(2)	50	Executive Vice President, Chief Operating Officer	2013
Edward W. Wilhelm(3)	58	Executive Vice President, Chief Financial Officer	2009
AJ Sutera(4)	51	Executive Vice President, Chief Information and Technology Officer	2016
Imran Jooma(5)	45	Divisional President, Executive Vice President, Omnichannel Strategy	2015
John Hall(6)	52	Divisional President, Executive Vice President, Chief Merchandising Officer	2016

(1) Mr. Sato has served as Chief Executive Officer of the Company since February 28, 2016 and as a Director since October 2014. Previously, Mr. Sato was the Company's President, serving in such capacity since October 2014.

(2) Ms. Greenwell has served as Executive Vice President, Chief Operating Officer of the Company since February 28, 2016. Previously, Ms. Greenwell was the Company's Executive Vice President, Chief Human Resources Officer, serving in such capacity since June 2013.

(3) Mr. Wilhelm has served as Executive Vice President, Chief Financial Officer of the Company since joining the Company in March 2009.

(4) Mr. Sutera joined the Company as Executive Vice President, Chief Information and Technology Officer on March 16, 2016. Prior to joining the Company, Mr. Sutera held several senior leadership roles with Hudson's Bay Company in support of a seamless omnichannel customer experience and key leadership positions at JetBlue Airways, Liberty Travel/GOGO Worldwide Vacations, and GlobalWorks Group LLC.

(5) Mr. Jooma has served as Divisional President, Executive Vice President, Omnichannel Strategy of the Company since February 28, 2016. Previously, Mr. Jooma was the Company's Executive Vice President, Chief Omnichannel Officer, serving in such capacity since February 2015. Prior to joining the Company, Mr. Jooma was Executive Vice President and President of Online, Marketing, Pricing, and Financial Services at Sears Holding Company and previously held key leadership positions at OfficeMax and Circuit City.

(6) Mr. Hall has served as Divisional President, Executive Vice President, Chief Merchandising Officer since April 21, 2016. Prior to joining the Company, Mr. Hall was Vice President, Corporate Merchandiser of Rack Menswear at Nordstrom. During his almost 30 years at Nordstrom, he also served as Shoe Buyer, Vice President/National Merchandise Manager (men's shoes), Vice President/Footwear Brand Manager (Nordstrom Product Group supporting men's, women's, and kids' shoes), and Vice President/Corporate Merchandise Manager (kids' shoes).

Table of Contents

PART II

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

The Company's common stock is traded on the Nasdaq Global Select Market under the ticker symbol FINL.

The following table sets forth, for the periods indicated, the intra-day high and low sales prices of the Company's common stock as reported by the Nasdaq Stock Market.

Quarter Ended	Fiscal 2017		Fiscal 2016	
	High	Low	High	Low
May	\$22.18	\$16.81	\$26.83	\$23.06
August	24.41	16.64	29.05	24.39
November	24.52	19.07	26.69	15.37
February	24.50	16.36	19.11	15.51

As of April 2, 2017, there were approximately 1,498 record holders of the Company's common stock. The number of common stock record holders excludes the beneficial owners of shares held in "street" name or held through participants in depositories.

On January 11, 2017, the Company increased its quarterly cash dividend to \$0.11 per share from \$0.10 per share of the Company's common stock. The Company declared dividends of \$17.0 million, \$16.5 million, and \$15.7 million during fiscal 2017, 2016, and 2015, respectively. As of February 25, 2017 and February 27, 2016, dividends declared but not paid of \$4.5 million and \$4.3 million, respectively, were accrued in other liabilities and accrued expenses on the Company's consolidated balance sheets. Further declarations of dividends remain at the discretion of the Company's Board of Directors.

On July 21, 2011, the Company's Board of Directors authorized a share repurchase program to repurchase shares of the Company's common stock with amendments on March 26, 2015 and July 13, 2016 authorizing further share repurchases through December 31, 2019 (the "Share Repurchase Program"). The Company repurchased 2.5 million shares of its common stock at an average price of \$21.11 per share for an aggregate amount of \$52.8 million in fiscal 2017. As of February 25, 2017, there were 4,791,936 shares remaining available to repurchase under the Share Repurchase Program.

As of February 25, 2017, the Company held 19,421,270 shares of its common stock as treasury shares at an average price of \$20.52 per share for an aggregate carrying amount of \$398.6 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 available for issuance upon the exercise of options and for awards of restricted stock and other awards is limited under The Finish Line, Inc. 2009 Incentive Plan Amended and Restated as of April 16, 2014 and further amended as of June 27 and July 14, 2016 (the "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.

Details on the shares repurchased under the Share Repurchase Program during the thirteen weeks ended February 25, 2017 are as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share(1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Program
November 27, 2016 – December 31, 2016	—	\$ —	—	5,041,936
January 1, 2017 – January 28, 2017	250,000	17.82	250,000	4,791,936
January 29, 2017 – February 25, 2017	—	—	—	4,791,936

250,000	\$ 17.81	250,000
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(1) The average price paid per share includes any brokerage commissions.

15

Table of Contents

16

Table of Contents

Item 6. Selected Financial Data

	Year Ended				
	February 25, 2017	February 27, 2016	February 28, 2015	March 1, 2014	March 2, 2013
	(in thousands, except per share and store/shop data)				
Statement of Operations Data(1):					
Net sales	\$1,844,393	\$1,798,982	\$1,750,707	\$1,620,231	\$1,415,730
Cost of sales (including occupancy costs)(a)	1,295,989	1,242,960	1,182,365	1,089,609	939,001
Gross profit	548,404	556,022	568,342	530,622	476,729
Selling, general, and administrative expenses(a)(b)	480,897	469,836	432,007	403,548	353,530
Impairment charges and store closing costs	13,312	43,637	2,030	2,767	6,264
Operating income	54,195	42,549	134,305	124,307	116,935
Interest expense (income), net	279	65	15	(37)	(198)
Gain on sale of investment	—	—	—	1,038	—
Income from continuing operations before income taxes	53,916	42,484	134,290	125,382	117,133
Income tax expense(c)	18,760	13,562	45,191	47,663	44,235
Net income from continuing operations	35,156	28,922	89,099	77,719	72,898
Net loss from discontinued operations, net of tax	(53,364)	(7,126)	(9,357)	(2,667)	(3,717)
Net (loss) income	(18,208)	21,796	79,742	75,052	69,181
Net loss attributable to redeemable noncontrolling interest of discontinued operations	—	96	2,251	1,851	2,292
Net (loss) income attributable to The Finish Line, Inc.	\$(18,208)	\$21,892	\$81,993	\$76,903	\$71,473
Earnings Per Share Data(1):					
Basic (loss) earnings per share attributable to The Finish Line, Inc. shareholders:					
Continuing operations	\$0.86	\$0.64	\$1.86	\$1.59	\$1.44
Discontinued operations	\$(1.31)	\$(0.15)	\$(0.15)	\$(0.02)	\$(0.02)
Basic (loss) earnings per share attributable to The Finish Line, Inc. shareholders	\$(0.45)	\$0.49	\$1.71	\$1.57	\$1.42
Diluted (loss) earnings per share attributable to The Finish Line, Inc. shareholders:					
Continuing operations	\$0.85	\$0.64	\$1.85	\$1.58	\$1.42
Discontinued operations	\$(1.29)	\$(0.16)	\$(0.15)	\$(0.02)	\$(0.02)
Diluted (loss) earnings per share attributable to The Finish Line, Inc. shareholders	\$(0.44)	\$0.48	\$1.70	\$1.56	\$1.40
Dividends declared per share	\$0.41	\$0.37	\$0.33	\$0.29	\$0.25
Share Data:					
Basic weighted-average shares	40,911	44,565	47,268	48,286	49,824
Diluted weighted-average shares(2)	41,367	44,787	47,658	48,701	50,491
Selected Store Operating Data:					
Number of stores/shops					
Opened during year	7	9	223	205	32

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Closed during year	(43)	(58)	(21)	(23)	(21)
Open at end of year	947		983		1,032		830		648	
Total square feet(3)	3,714,228		3,754,572		3,875,969		3,737,550		3,514,611	
Average square feet per store/shop(3)	3,922		3,820		3,756		4,503		5,424	
Net sales per square foot for brick and mortar comparable stores(4)(5)	\$372		\$369		\$368		\$366		\$353	
Increase in Finish Line comparable sales(5)(6)	0.3	%	1.8	%	3.2	%	4.2	%	5.8	%
Balance Sheet Data:										
Working capital	\$269,439		\$347,533		\$320,266		\$362,297		\$354,352	
Total assets	\$746,468		\$817,548		\$783,128		\$769,095		\$678,871	
Total debt	\$—		\$—		\$—		\$—		\$—	
Shareholders' equity	\$451,498		\$527,644		\$589,644		\$582,184		\$524,863	

(1) All fiscal years presented included 52 weeks.

(2) Consists of weighted-average common and common equivalent shares outstanding for the fiscal year.

(3) Computed as of the end of each fiscal year.

Calculation includes all brick and mortar stores that were open as of the end of each fiscal year and that were open more than one year. Accordingly, stores opened, closed, or expanded during the fiscal year were not included.

(4) Temporarily closed stores are excluded during the months that the store was closed. Calculation excludes digital sales.

(5) Shops within department stores are not included in this calculation.

Calculation includes all brick and mortar stores that were open as of the end of each fiscal year and that were open more than one year. Accordingly, stores opened, closed, or expanded during the fiscal year were not included.

(6) Temporarily closed stores are excluded during the months that the store was closed. Calculation includes digital sales.

Fiscal 2014 cost of sales includes \$5.8 million in start-up costs related to inventory reserves established for inventory purchased from Macy's. Fiscal 2014 selling, general, and administrative expenses includes \$2.2 million in start-up costs associated with shipping and handling for the initial inventory takeover and assortment of Macy's athletic footwear.

(b) Fiscal 2017 and 2016 include \$3.7 million and \$3.6 million, respectively in employee severance and retirement costs.

(c) Fiscal 2015 includes a \$4.3 million income tax benefit for a worthless stock deduction with respect to the Company's wholly-owned subsidiary, The Finish Line MA, Inc.

Table of Contents

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

Executive Summary

During fiscal 2017, the key highlights of the Company included significant digital sales growth and the continued success of our shops within Macy's, which included the repositioning and expansion of shops within 64 department stores. The Company remained committed to its strategic plan to put investments into its stores/shops, technology, and people. Additionally, the Company continued to provide direct returns to its shareholders through dividends and stock repurchases totaling \$69.5 million during fiscal 2017. An overview of the detailed results is presented below:

Net sales increased 2.5% to \$1,844.4 million in fiscal 2017 compared to \$1,799.0 million in fiscal 2016.

Finish Line comparable sales for fiscal 2017 increased 0.3%.

Finish Line's digital comparable sales (which are included in Finish Line comparable sales) increased 11.4%.

Net sales per square foot for brick and mortar comparable stores increased \$3 to \$372 per square foot.

Shops within department stores net sales increased \$73.4 million, or 29.7%, to \$320.7 million.

Gross profit was \$548.4 million (29.7% of net sales) in fiscal 2017 compared to \$556.0 million (30.9% of net sales) in fiscal 2016.

Product margin, as a percentage of net sales, decreased 1.0%, which was primarily due to being more promotional than the prior year, primarily during the holiday season through the end of the year, which caused a decrease in product margins in the current year as compared to the prior year.

Occupancy costs, as a percentage of net sales, increased 0.2%.

SG&A expenses were \$480.9 million (26.1% of net sales) in fiscal 2017 compared to \$469.8 million (26.1% of net sales) in fiscal 2016.

During fiscal 2017, depreciation expense increased due to the Company's capital investments related to the replacement of the Company's warehouse and order management system in the third quarter of fiscal 2016. In addition, the Company incurred incremental SG&A expenses to support the growth in stores/shops and digital.

The Company closed on the sale of its JackRabbit division on February 24, 2017 and has classified the loss on sale and results of JackRabbit within discontinued operations.

Operating income was \$54.2 million (2.9% of net sales) in fiscal 2017 compared to \$42.5 million (2.4% of net sales) in fiscal 2016.

The \$11.6 million increase, or 27.4%, was primarily due to \$30.3 million less in impairment charges and store closing costs. The \$13.3 million in impairment charges and store closing costs recorded in fiscal 2017 related to the write-off of long-lived assets of underperforming stores, obsolete store fixtures and corporate assets, and fixtures and equipment related to the 43 stores/shops closed during fiscal 2017. This compared to \$43.6 million in impairment charges and store closing costs in fiscal 2016. This was partially offset by the decrease in gross profit.

Net income from continuing operations was \$35.2 million (1.9% of net sales) in fiscal 2017 compared to \$28.9 million (1.6% of net sales) in fiscal 2016, an increase of \$6.3 million, or 21.6%.

Diluted earnings per share from continuing operations attributable to The Finish Line, Inc. shareholders increased 32.8% to \$0.85 in fiscal 2017 compared to \$0.64 in fiscal 2016.

Cash and cash equivalents were \$90.9 million as of February 25, 2017 with no interest bearing debt.

Generated cash from continuing operations of \$167.5 million in fiscal 2017.

Cash outlay for capital expenditures was \$74.8 million from continuing operations.

Paid \$16.7 million of dividends to shareholders in fiscal 2017.

Repurchased 2.5 million shares of the Company's common stock totaling \$52.8 million during fiscal 2017.

Opened 6 new and closed 24 brick and mortar stores during fiscal 2017, ending the year with 573 brick and mortar stores. Additionally, the Company updated 42 stores in fiscal 2017 with its new store design.

Opened 1 new branded shop within a department store and closed branded shops within 19 department stores during fiscal 2017, ending the year with branded shops in 374 department stores. Additionally, the Company repositioned and expanded shops within 64 department stores.

Critical Accounting Policies

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

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

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

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

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

Valuation of Property and Equipment. The Company reviews its property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company considers historical performance and future estimated results in its evaluation of potential impairment and then compares the carrying amount of the asset to the estimated future undiscounted cash flows expected to be generated by the asset. If an asset is considered to be impaired, the impairment recognized is measured by comparing projected discounted cash flows to the asset's carrying value. The estimation of fair value is measured by discounting expected future cash flows at the discount rate the Company utilizes to evaluate potential investments. Actual results may differ from these estimates and as a result the estimation of fair values may be adjusted in the future.

Valuation of Goodwill. The Company accounts for goodwill in accordance with Accounting Standards Codification 350, Intangibles - Goodwill and Other ("ASC 350"). ASC 350 requires that goodwill not be amortized, but reviewed for impairment if impairment indicators arise and, at a minimum, annually.

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

The determination of the discounted cash flows of the reporting unit and assets and liabilities within the reporting unit requires significant estimates and assumptions. These estimates and assumptions primarily include, but are not limited

to, the discount rate, terminal growth rate, earnings before depreciation and amortization, and capital expenditure forecasts. The market approach requires judgment and uses one or more methods to compare the reporting unit with similar businesses, business ownership interests, and/or securities that have been sold. The Company has evaluated the merits of each significant

assumption, both individually and in the aggregate, used to determine the fair value of the reporting unit, as well as the fair values of the corresponding assets and liabilities within the reporting unit, and concluded they are reasonable and are consistent with prior valuations; however, due to the inherent uncertainty involved in making these estimates, actual results could differ from those estimates.

All of the Company's goodwill and intangible assets were associated with JackRabbit, which was sold during fiscal 2017. Therefore, the Company had no goodwill or intangible assets recorded on the balance sheet at February 25, 2017.

Operating Leases. The Company leases retail stores under non-cancelable operating leases, which generally have lease terms ranging from one to ten years. Most of these lease arrangements do not provide for renewal periods; however, management expects that in the normal course of business, expiring leases will generally be renewed or, upon making a decision to relocate, replaced by leases at other premises. The Company recognizes rent expense for minimum lease payments on a straight-line basis over the expected lease term, including rent holidays, rent escalation clauses, and/or cancelable option periods where failure to exercise such options would result in an economic penalty. In addition, the commencement date of the lease term is the earlier of the date when the Company becomes legally obligated for the rent payments or the date when the Company takes possession of the leased space for build-out.

Certain leases provide for contingent rents and/or license fees, which are determined as a percentage of gross sales in excess of specified levels. The Company records a contingent rent liability in other liabilities and accrued expenses on the consolidated balance sheets and the corresponding rent expense when specified levels have been achieved or when management determines that achieving the specified levels during the fiscal year is probable.

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

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

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

interest, in other long-term liabilities on the consolidated balance sheets unless the liability is expected to be paid within one year. Changes to the accrual for uncertain tax positions, including accrued penalties and interest, are included in income tax expense in the consolidated statements of operations.

Recent Accounting Pronouncements. In May 2014, the Financial Accounting Standards Board (“FASB”) issued guidance on revenue from contracts with customers and has subsequently issued several amendments which clarify the

guidance as well as provide guidance for implementation. The guidance outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The guidance requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. In August 2015, the FASB approved a one year deferral of the effective date, to make it effective for annual or interim reporting periods beginning after December 15, 2017. The guidance allows for either a full retrospective or a modified retrospective transition method. The adoption of the new guidance could impact the timing or presentation of revenue recognition and related balance sheet accounts associated with the Company's gift cards, loyalty programs, and product returns. The Company is currently assessing the impact of adopting this guidance within these areas and others, as well as the available transition methods, but does not, at this time, anticipate a material impact to its consolidated results of operations, financial position, and cash flows.

In July 2015, the FASB issued guidance on simplifying the measurement of inventory. The guidance, which applies to inventory that is measured using any method other than the last-in, first-out ("LIFO") or retail inventory method, requires that entities measure inventory at the lower of cost or net realizable value. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016 and should be applied on a prospective basis. The Company is currently assessing the potential impact of adopting this guidance, but does not, at this time, anticipate a material impact to its consolidated results of operations, financial position, or cash flows.

In February 2016, the FASB issued guidance on accounting for leases. A primary purpose of the guidance is to increase transparency and comparability among organizations by recognizing right-of-use assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Specifically, lessees will be required to recognize the rights and obligations resulting from leases classified as operating leases as assets and liabilities. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and requires a modified retrospective adoption, with early adoption permitted. The Company is currently assessing the impact of adopting this guidance and its potential impact to its consolidated results of operations, financial position, cash flows, and related disclosures and is expecting the guidance to have a material impact due to the significant number of store leases that the Company is under contract for.

In March 2016, the FASB issued guidance on simplifying several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, classification on the statement of cash flows, and accounting for forfeitures. The guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, and early adoption is permitted. The manner of adoption varies, with certain provisions applied on a retrospective or modified retrospective approach, while others are applied prospectively. The Company will elect to apply the guidance related to the presentation of excess tax benefits within the statements of cash flows using a retrospective transition method, and as a result, excess tax benefits related to share-based awards which are currently classified as cash flows from financing activities will be reclassified as cash flows from operation activities. The Company will continue to expense share-based awards based on awards ultimately expected to vest, which will require the Company to continue to estimate forfeitures on the date of their grant. The Company has assessed the impact of adopting this guidance and expects the change relating to the excess tax benefits (detriments) to potentially introduce volatility to the Company's effective income tax rate as the recognition of the excess tax benefits (detriments) are dependent on stock option award exercise patterns as well as the fair value of the price of the Company's stock when restricted stock awards vest which are inherently unpredictable. Had the Company adopted the guidance in fiscal 2017, it would not have had a material impact to its consolidated results of operations, financial position, or cash flows.

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

General

The following discussion and analysis should be read in conjunction with the information included in Item 6, Selected Financial Data and Item 8, Financial Statements and Supplementary Data.

The Company uses a "Retail" calendar. The Company's fiscal year ends on the Saturday closest to the last day of February and included 52 weeks in fiscal 2017, 2016, and 2015.

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.

Brick and mortar comparable 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 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. Brick and mortar comparable sales do not include sales from 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 sales is the aggregation of brick and mortar comparable sales and digital comparable sales. Shops within department stores comparable sales are the change in sales year over year for the reporting periods presented from branded shops within department stores open longer than one year, including e-commerce sales, beginning in the thirteenth month of a shop's operation. Expanded shops are excluded from the shops within department stores comparable sales calculation until the thirteenth month following the re-opening of the shop and temporarily closed shops are excluded during the months that the shop is closed. Additionally, non-branded shops are excluded from the shops within department stores comparable sales calculation.

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

Number of stores/shops	Year Ended	
	February 25, 2017	February 27, 2016
Finish Line:		
Beginning of year	591	637
Opened	6	8
Closed	(24)	(54)
End of year	573	591
Branded shops within department stores:		
Beginning of year	392	395
Opened	1	1
Closed	(19)	(4)
End of year	374	392
Total:		
Beginning of year	983	1,032
Opened	7	9
Closed	(43)	(58)
End of year	947	983

Square feet information	February 25, 2017	February 27, 2016
Finish Line:		
Square feet	3,187,942	3,278,039
Average store size	5,564	5,547
Branded shops within department stores:		
Square feet	526,286	476,533
Average shop size	1,407	1,216
Total:		
Square feet	3,714,228	3,754,572

Results of Operations

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

	Year Ended					
Category	February 25, 2017		February 27, 2016		February 28, 2015	
Footwear	\$1,715,348	93 %	\$1,619,002	90 %	\$1,550,691	89 %
Softgoods	129,045	7 %	179,980	10 %	200,016	11 %
Total net sales	\$1,844,393	100 %	\$1,798,982	100 %	\$1,750,707	100 %

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

	Year Ended					
	February 25, 2017		February 27, 2016		February 28, 2015	
Income Statement Data:						
Net sales	100.0 %		100.0 %		100.0 %	
Cost of sales (including occupancy costs)	70.3		69.1		67.5	
Gross profit	29.7		30.9		32.5	
Selling, general, and administrative expenses	26.1		26.1		24.7	
Impairment charges and store closing costs	0.7		2.4		0.1	
Operating income	2.9		2.4		7.7	
Interest expense, net	—		—		—	
Income from continuing operations before income taxes	2.9		2.4		7.7	
Income tax expense	1.0		0.8		2.6	
Net income from continuing operations	1.9		1.6		5.1	
Net loss from discontinued operations	(2.9)		(0.4)		(0.5)	
Net (loss) income	(1.0)		1.2		4.6	
Net loss attributable to redeemable noncontrolling interest	—		—		0.1	
Net (loss) income attributable to The Finish Line, Inc.	(1.0)%		1.2 %		4.7 %	

Fifty-Two Weeks Ended February 25, 2017 Compared to the Fifty-Two Weeks Ended February 27, 2016
Net Sales

	Year Ended	
	February 25, 2017	February 27, 2016
	(dollars in thousands)	
Brick and mortar stores sales	\$1,196,927	\$1,258,405
Digital sales	326,752	293,228
Shops within department stores sales	320,714	247,349
Total net sales	\$1,844,393	\$1,798,982

Brick and mortar comparable sales decrease	(2.4	)%	(0.8)%
Digital comparable sales increase	11.4	%	14.5	%
Finish Line comparable sales increase	0.3	%	1.8	%
Shops within department stores comparable sales increase	33.0	%	N/A	

Net sales increased 2.5% in fiscal 2017 as compared to fiscal 2016, which was primarily due to the following:

An increase in shops within department store net sales of 29.7%, primarily due to an increase in comparable sales as a result of the repositioning and expansion of 152 branded shops during fiscal 2017 and 2016, partially offset by a decrease in non-branded shop net sales.

A decrease in Finish Line net sales (composed of brick and mortar net sales and digital net sales) of 1.8%, primarily due to a net decrease in Finish Line store count as compared to the prior year, partially offset by an increase of 0.3% Finish Line comparable sales, which was due to an increase in brick and mortar and digital average dollar per transaction and digital traffic, partially offset by a decrease in brick and mortar and digital conversion and brick and mortar traffic in fiscal 2017 as compared to fiscal 2016.

Consolidated footwear sales increased 6.0% in fiscal 2017 as compared to fiscal 2016, which was primarily driven by percentage increases in the low-single digits in men's and kids' and low teens in women's footwear sales. Consolidated softgoods sales decreased 28.3% in fiscal 2017 as compared to fiscal 2016 primarily due to exiting the promotional NCAA licensed fleece program in 2017, as well as the Company's focus on a more narrow and deeper assortment to drive a more profitable softgoods business.

Cost of Sales (Including Occupancy Costs) and Gross Profit

	Year Ended	
	February 25, 2017	February 27, 2016
	(dollars in thousands)	
Cost of sales (including occupancy costs)	\$1,295,989	\$1,242,960
Gross profit	\$548,404	\$556,022
Gross profit as a percentage of net sales	29.7	% 30.9

Gross profit, as a percentage of net sales, decreased 1.2% in fiscal 2017 as compared to fiscal 2016, which was primarily due to a 1.0% decrease in product margin and a 0.2% increase in occupancy costs, as a percentage of net sales. The 1.0% decrease in product margin, as a percentage of net sales, was primarily due to being more promotional than the prior year primarily during the holiday season through the end of the year, which caused a decrease in product margins in the current year as compared to the prior year. The 0.2% increase in occupancy costs, as a percentage of net sales, was primarily due to deleveraging against the Finish Line comparable sales increase.

Selling, General, and Administrative Expenses

	Year Ended			
	February	February		
	25, 2017	27, 2016		
	(dollars in thousands)			
Selling, general, and administrative expenses	\$480,897	\$469,836		
Selling, general, and administrative expenses as a percentage of net sales	26.1	% 26.1	%	
Selling, general, and administrative expenses increased \$11.1 million in fiscal 2017 as compared to fiscal 2016, which was primarily due to the following: (1) an increase in depreciation expense of \$7.2 million, or 14.6%, which was primarily due to the replacement of the Company's warehouse and order management system in the third quarter of fiscal 2016, the Company's new store design initiative, and the website platform replacement in fiscal 2017; (2) incremental costs of \$3.7 million for severance and related benefits due to a reduction in workforce; (3) incremental credit costs due to credit cards; (4) incremental costs related to the implementation of the Company's new payroll software; and (5) increase in variable costs such as Macys.com license fees, in conjunction with the 29.7% increase in shops within department store net sales.				
Impairment Charges and Store Closing Costs				

	Year Ended			
	February	February		
	25, 2017	27, 2016		
	(dollars in thousands)			
Impairment charges and store closing costs	\$13,312	\$43,637		
Impairment charges and store closing costs as a percentage of net sales	0.7	% 2.4	%	
Number of stores/shops closed	43	58		
The \$13.3 million in impairment charges and store closing costs recorded during fiscal 2017 were primarily the result of an \$11.5 million write-off of long-lived assets of underperforming stores and a \$1.0 million write-off of obsolete store fixtures and corporate assets. 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 \$0.8 million in store closing costs during fiscal 2017, which represents the non-cash write-off of fixtures and equipment upon a store/shop closing.				
The \$43.6 million in impairment charges and store closing costs recorded during fiscal 2016 were primarily the result of a \$33.3 million write-off of technology assets related to enterprise-wide systems infrastructure, as the Company determined that the systems were no longer going to be used for their originally intended purpose and instead the Company will focus on smaller upgrades and enhancements to its core systems going forward, a \$8.4 million write-off of long-lived assets of underperforming stores, and a \$1.1 million write-off of obsolete store fixtures and corporate assets. 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 \$0.8 million in store closing costs during fiscal 2016.				
Interest Expense, Net				

	Year Ended			
	February	February		
	25,	27, 2016		
	2017			
	(dollars in thousands)			
Interest expense, net	\$279	\$ 65		
Interest expense, net as a percentage of net sales	—	% —	%	

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

Income Tax Expense

	Year Ended	
	February 25, 2017	February 27, 2016
	(dollars in thousands)	
Income tax expense	\$18,760	\$13,562
Income tax expense as a percentage of net sales	1.0 %	0.8 %
Effective income tax rate	34.8 %	31.9 %

The increase in the effective tax rate in fiscal 2017 as compared to fiscal 2016 was primarily due to a decrease in research and development tax credits recognized in fiscal 2017 as compared to fiscal 2016. This was partially offset by a permanent deduction related to the non-performance based compensation of an executive that retired before the end of fiscal 2017.

Net Income from Continuing Operations

	Year Ended	
	February 25, 2017	February 27, 2016
	(dollars in thousands)	
Net income from continuing operations	\$35,156	\$28,922
Net income from continuing operations as a percentage of net sales	1.9 %	1.6 %
Diluted earnings per share attributable to The Finish Line, Inc. from continuing operations	\$0.85	\$0.64

Net income from continuing operations increased \$6.3 million in fiscal 2017 as compared to fiscal 2016, which was primarily due to the decrease in impairment charges and store closing costs as noted above, partially offset by a decrease in gross profit and an increase in selling, general, and administrative expenses and income tax expense.

Net Loss from Discontinued Operations, Net of Tax

	Year Ended	
	February 25, 2017	February 27, 2016
	(dollars in thousands)	
Net loss from discontinued operations, net of tax	\$(53,364)	\$(7,126)
Net loss from discontinued operations as a percentage of net sales	(2.9)%	(0.4)%
Diluted loss per share attributable to The Finish Line, Inc. from discontinued operations	\$(1.29)	\$(0.16)

Net loss from discontinued operations represents the net operating losses and the loss on the sale of JackRabbit.

On February 24, 2017 (the "Acquisition Date"), the Company completed the sale of its JackRabbit division to affiliates of CriticalPoint Capital, LLC (the "Buyers"). The transaction took the form of a sale by the Company of its entire membership interest in its affiliated company, which owns JackRabbit, and a payment of \$10.1 million, of which \$1.8 million was held back and is payable based on certain conditions that need to be met by the Buyers. Included in the \$10.1 million payment to the Buyers is an estimated net working capital adjustment of \$1.1 million, which was included in the \$1.8 million payment held back discussed above. The purchase price is subject to working capital and other customary adjustments set forth in the purchase agreement. The Buyers acquired all JackRabbit assets, inventory, leasehold interests, customary liabilities, intellectual property, and the JackRabbit trademark and name pursuant to the Agreement.

The Company recorded a loss on sale of \$33.5 million, which represented the total cash payments to the Buyers of \$10.1 million, net assets assumed by the Buyers of \$18.3 million, and one-time costs of approximately \$5.1 million associated with the transaction.

The following table presents key financial results of JackRabbit for each of the following fiscal years (in thousands):

	Year Ended	
	February 25, 2017	February 27, 2016
Net sales	\$89,739	\$ 89,906
Cost of sales (including occupancy costs)	68,495	62,936
Gross profit	21,244	26,970
Selling, general, and administrative	30,488	33,824
Impairment charges and store closing costs	44,202	5,055
Loss on sale of discontinued operations	33,500	—
Loss from discontinued operations before income tax benefit	(86,946)	(11,909)
Income tax benefit	33,582	4,783
Net loss from discontinued operations, net of tax	\$(53,364)	\$ (7,126)

During fiscal 2017, the Company determined that it was more likely than not that the fair value of JackRabbit was less than its carrying value, and upon completion of an impairment analysis, that goodwill was impaired during the Company's third fiscal quarter. The decrease in JackRabbit's fair value from the Company's prior year impairment analysis was the result of preliminary indications of interest for JackRabbit that indicated that the fair value was below its carrying value. Fair value of the JackRabbit reporting unit was determined using preliminary bids from interested parties. As a result of the second step of the goodwill impairment test, JackRabbit's goodwill had no implied fair value and was written down to zero. This resulted in a pretax non-cash goodwill impairment charge of \$44.0 million that is reflected in asset impairment charges in discontinued operations for the year ended February 25, 2017.

Net Loss Attributable to Redeemable Noncontrolling Interest of Discontinued Operations

	Year Ended	
	February 25, 2017	February 27, 2016
	(dollars in thousands)	
Net loss attributable to redeemable noncontrolling interest of discontinued operations	\$—	\$ 96
Net loss attributable to redeemable noncontrolling interest of discontinued operations as a percentage of net sales	—%	—%

The net loss attributable to redeemable noncontrolling interest of discontinued operations represents the noncontrolling owner's portion of the net loss generated by JackRabbit for the fiscal year. The decrease in fiscal 2017 as compared to fiscal 2016 was primarily due to JackRabbit becoming a wholly owned subsidiary of the Company during fiscal 2016.

Fifty-Two Weeks Ended February 27, 2016 Compared to the Fifty-Two Weeks Ended February 28, 2015

Net Sales

	Year Ended	
	February 27, 2016	February 28, 2015
	(dollars in thousands)	
Brick and mortar stores sales	\$1,258,405	\$1,288,053
Digital sales	293,228	256,204
Shops within department stores sales	247,349	206,450
Total net sales	\$1,798,982	\$1,750,707

Brick and mortar comparable sales (decrease) increase	(0.8)%	—	%
Digital comparable sales increase	14.5	%	22.6	%
Finish Line comparable sales increase	1.8	%	3.2	%

Net sales increased 2.8% in fiscal 2016 as compared to fiscal 2015. The increase was attributable to a Finish Line comparable sales increase of 1.8%, an increase in shops within department stores net sales of \$40.9 million, primarily due to an increase in the number of branded shops open during fiscal 2016 as compared to fiscal 2015 as well as an increase in sales per shop, which was partially offset by a net decrease in Finish Line store count as compared to the prior year. The Finish Line comparable sales increase of 1.8% was due to an increase in store average dollar per transaction and digital traffic, partially offset by a decrease in store and digital conversion, store traffic, and digital average dollar per transaction in fiscal 2016 as compared to fiscal 2015.

The decelerated growth in Finish Line comparable store sales and shops within department stores sales was primarily caused by the replacement of the Company's warehouse and order management system during the third quarter of fiscal 2016. In October 2015, the Company began experiencing significant supply chain challenges as the new system was not able to process product flow at the volumes necessary to support its planned receipts and allocations, which caused stress to the Company's ability to place new product in its stores/shops and distribution center and significantly decreased its ability to fulfill digital sales orders. Inbound shipments processed by the Company during the third quarter of fiscal 2016 decreased 25% as compared to the third quarter of fiscal 2015. As a result, average merchandise inventory levels in its stores/shops and distribution center during the third quarter of fiscal 2016 were \$41 million, or 14% below average merchandise inventory levels during the third quarter of fiscal 2015. This drove a significant decrease in brick and mortar and digital conversion during the third quarter of fiscal 2016 as compared to the third quarter of fiscal 2015, despite an increase in digital traffic and slight decrease in brick and mortar traffic. In addition, during the third quarter of fiscal 2016, the new system struggled to process digital orders received, which led to cancellation rates that were 50% higher than normal. The decrease in average merchandise inventory levels also drove a decrease in digital and brick and mortar average dollar per transaction during the third quarter of fiscal 2016 compared to the third quarter of fiscal 2015 due to an increase in the sales mix of clearance and aged product and a decrease in new product with higher price points. These complications were similar in the Company's shops within department stores, which caused a deceleration of the growth experienced in the current year as compared to the prior year. The Company believes the complications caused by the new warehouse and order management system replacement have significantly improved and the system is currently functional however, the Company is still in the process of enhancing the system's capabilities in order to realize the benefits provided by the new system. Consolidated footwear sales increased 4.4% in fiscal 2016 as compared to fiscal 2015, which was primarily driven by percentage increases in the low-single digits in men's, high-single digits in women's, and mid-single digits in kids' footwear sales. Consolidated softgoods sales were even more significantly impacted than footwear sales by the replacement of the Company's warehouse and order management system in the third quarter of fiscal 2016. The complications caused softgoods product levels and sales to be significantly below the Company's plan for the third quarter of fiscal 2016 with the largest declines coming in its fleece product, which was also impacted by unseasonably

warm temperatures in many areas of the United States. As a result, softgoods sales decreased 10.0% in fiscal 2016 as compared to fiscal 2015.

Cost of Sales (Including Occupancy Costs) and Gross Profit

	Year Ended	
	February 27, 2016	February 28, 2015
	(dollars in thousands)	
Cost of sales (including occupancy costs)	\$1,242,960	\$1,182,365
Gross profit	\$556,022	\$568,342
Gross profit as a percentage of net sales	30.9	% 32.5

Gross profit, as a percentage of net sales, decreased 1.6% in fiscal 2016 as compared to fiscal 2015, which was primarily due to a 1.3% decrease in product margin and a 0.2% increase in occupancy costs, as a percentage of net sales. The 1.3% decrease in product margin, as a percentage of net sales, was primarily due to the replacement of the Company's warehouse and order management system during the third quarter of fiscal 2016. As previously discussed, the inability to place new product in the Company's stores/shops and distribution center caused an increase in the sales mix of clearance and aged product and a decrease in sales of new product with higher price points and margin, which caused a degradation of product margins for the third quarter of the current year as compared to the prior year. The 0.2% increase in occupancy costs, as a percentage of net sales, was primarily due to deleveraging against the Finish Line comparable store sales increase.

Selling, General, and Administrative Expenses

	Year Ended	
	February 27, 2016	February 28, 2015
	(dollars in thousands)	
Selling, general, and administrative expenses	\$469,836	\$432,007
Selling, general, and administrative expenses as a percentage of net sales	26.1	% 24.7

Selling, general, and administrative expenses increased \$37.8 million in fiscal 2016 in comparison to fiscal 2015, which was primarily due to the following: (1) approximately \$8.0 million of incremental expenses related to the Company's supply chain issues as a result of the replacement of the Company's warehouse and order management system previously discussed, which included additional IT resources to address technical issues and help stabilize the new system; additional freight costs related to rerouting of trucks to the Company's vendor partners to assist in repacking, diverting product to a third-party location to help process product flow, and higher per unit shipping costs due to shipments to the Company's stores/shops from its distribution center being well below capacity; and incremental labor costs in the Company's distribution center related to the manual processing, handling, and shipping of inventory to its stores/shops and to fulfill orders; (2) an increase in depreciation expense of \$5.7 million, or 15%, which was primarily due to the replacement of the Company's warehouse and order management system that went live during the third quarter of fiscal 2016; (3) an increase in web advertising to drive traffic to the Company's websites; (4) incremental credit costs due to an increase in chargebacks; (5) the Company recording \$3.5 million in employee severance and retirement costs in fiscal 2016; and (6) variable costs in fulfillment, Macys.com license fees, and payroll in conjunction with the 2.8% increase in consolidated net sales.

Impairment Charges and Store Closing Costs

	Year Ended	
	February 27, 2016	February 28, 2015
	(dollars in thousands)	
Impairment charges and store closing costs	\$43,637	\$2,030
Impairment charges and store closing costs as a percentage of net sales	2.4	% 0.1

Number of stores/shops closed 58 21

The \$43.6 million in impairment charges and store closing costs recorded during fiscal 2016 were primarily the result of a \$33.3 million write-off of technology assets related to enterprise-wide systems infrastructure, as the Company determined that the systems were no longer going to be used for their originally intended purpose and instead the Company will focus on smaller upgrades and enhancements to its core systems going forward, a \$8.4 million write-off of long-lived assets of underperforming stores, and a \$1.1 million write-off of obsolete store fixtures and corporate assets. 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 \$0.8 million in store closing costs during fiscal 2016, which represents the non-cash write-off of fixtures and equipment upon a store/shop closing.

The \$2.0 million in impairment charges and store closing costs recorded during fiscal 2015 were primarily the result of a \$0.2 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 the website was no longer going to be used for its originally intended purpose, a \$0.5 million write-off of long-lived assets of four underperforming stores, and a \$0.3 million write-off of obsolete store fixtures. The asset impairment charges for the obsolete store technology assets and fixtures were calculated as the difference between the carrying amount of the impaired assets and their estimated future discounted cash flows. Additionally, the Company recorded \$1.0 million in store closing costs during fiscal 2015.

Interest Expense, Net

Year Ended
February
27, 2016 February
28, 2015

(dollars in
thousands)

Interest expense, net \$65 \$ 15

Interest expense, 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 Revolving Credit Facility Credit Agreement.

Income Tax Expense

Year Ended
February February
27, 2016 28, 2015
(dollars in thousands)

Income tax expense \$13,562 \$45,191

Income tax expense as a percentage of net sales 0.8 % 2.6 %

Effective income tax rate 31.9 % 33.7 %

The decrease in income tax expense in fiscal 2016 as compared to fiscal 2015 was primarily due to the \$91.8 million decrease in income from continuing operations before income taxes in fiscal 2016 as compared to fiscal 2015. The decrease in effective income tax rate is due to the recognition of federal and state research and development tax credits in fiscal 2016, partially offset by the recognition of a tax benefit for a worthless stock deduction of \$4.3 million with respect to the Company's wholly owned subsidiary, The Finish Line MA, Inc., in fiscal 2015.

Net Income from Continuing Operations

Year Ended
February February
27, 2016 28, 2015
(dollars in thousands)

Net income from continuing operations \$28,922 \$89,099

Net income from continuing operations as a percentage of net sales 1.6 % 5.1 %

Diluted earnings per share attributable to The Finish Line, Inc. from continuing operations \$0.64 \$1.85

Net income from continuing operations decreased \$60.2 million in fiscal 2016 as compared to fiscal 2015, which was primarily due to the increase in selling, general, and administrative expenses of \$37.8 million as described above, as well as the \$43.6 million in impairment charges and store closing costs, primarily composed of the \$33.3 million write-off of technology assets. These were partially offset by a decrease in income tax expense as described above.

Net Loss from Discontinued Operations, Net of Tax

	Year Ended	
	February 27, 2016	February 28, 2015
	(dollars in thousands)	
Net loss from discontinued operations, net of tax	\$(7,126)	\$(9,357)
Net loss from discontinued operations as a percentage of net sales	(0.4)%	(0.5)%
Diluted loss per share attributable to The Finish Line, Inc. from discontinued operations	\$(0.16)	\$(0.15)
Net loss from discontinued operations represents the net operating losses for JackRabbit.		
The following table presents key financial results of JackRabbit for fiscal 2016 and 2015 (in thousands):		

	Year Ended	
	February 27, 2016	February 28, 2015
Net sales	\$89,906	\$ 69,879
Cost of sales (including occupancy costs)	62,936	54,419
Gross profit	26,970	15,460
Selling, general, and administrative expenses	33,824	27,447
Impairment charges and store closing costs	5,055	1,888
Loss from discontinued operations before income tax benefit	(11,909)	(13,875)
Income tax benefit	4,783	4,518
Net loss from discontinued operations, net of tax	(7,126)	(9,357)
Net Loss Attributable to Redeemable Noncontrolling Interest of Discontinued Operations		

	Year Ended	
	February 27, 2016	February 28, 2015
	(dollars in thousands)	
Net loss attributable to redeemable noncontrolling interest of discontinued operations	\$96	\$2,251
Net loss attributable to redeemable noncontrolling interest of discontinued operations as a percentage of net sales	— %	0.1 %

The net loss attributable to redeemable noncontrolling interest of discontinued operations represents the noncontrolling owner's portion of the net loss generated by JackRabbit for the fiscal year. The decrease in fiscal 2016 as compared to fiscal 2015 was primarily due to JackRabbit becoming a wholly owned subsidiary of the Company during fiscal 2016.

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):

	February 25, 2017	February 27, 2016
Cash and cash equivalents	\$90,856	\$79,495
Merchandise inventories, net	\$331,146	\$347,966
Interest-bearing debt	\$—	\$—
Working capital	\$269,439	\$300,166

Operating Activities. Net cash provided by operating activities - continuing operations was \$167.5 million, \$107.2 million, and \$117.6 million for fiscal 2017, 2016, and 2015, respectively. Net cash provided by operating activities increased by \$60.3 million in fiscal 2017 as compared to fiscal 2016. This increase was primarily due to a net increase in the cash inflow from working capital balances and an increase in net income from continuing operations, partially offset by a decrease in non-cash expenses in fiscal 2017 compared to fiscal 2016.

Net cash provided by operating activities - continuing operations decreased by \$11.4 million in fiscal 2016 as compared to fiscal 2015. This decrease was primarily due to a decrease in net income from continuing operations, partially offset by an increase in non-cash expenses and net decrease in the cash outflow in working capital balances for fiscal 2016 as compared to fiscal 2015.

At February 25, 2017, the Company had cash and cash equivalents of \$90.9 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 February 25, 2017, substantially all of the Company's cash was invested in deposit accounts at banks.

Merchandise inventories, net decreased 4.8% at February 25, 2017 as compared to February 27, 2016. The decrease in merchandise inventories, net over the prior year was driven primarily due to a seasonal build in merchandise inventories associated with an earlier Easter in March 2016 versus mid-April of 2017. Merchandise inventories decreased high single digits at Finish Line and increased high single digits at shops within department stores.

Investing Activities. Net cash used in investing activities - continuing operations was \$82.5 million, \$62.1 million, and \$87.6 million for fiscal 2017, 2016, and 2015, respectively. The increase in cash used in investing activities in fiscal 2017 as compared to fiscal 2016 was primarily due to a \$12.7 million increase in capital expenditures and \$8.3 million in cash paid for the sale of discontinued operations in fiscal 2017 as compared to fiscal 2016.

The decrease in cash used in investing activities - continuing operations in fiscal 2016 as compared to fiscal 2015 was primarily due to a \$23.3 million decrease in capital expenditures in fiscal 2016 as compared to fiscal 2015 and a \$2.2 million increase in cash paid for investments in fiscal 2015.

Capital expenditures were \$74.8 million, \$62.1 million, and \$85.4 million for fiscal 2017, 2016, and 2015, respectively. Expenditures in fiscal 2017 were primarily for the construction of 6 new brick and mortar stores, 1 new shop within department stores, and the remodeling and repositioning of existing stores, and repositioning and expanding shops within department stores. Further, the Company had capital investments in technology to support the upgrade of its digital platform, mobile first strategy, and information security enhancements. In addition to the \$74.8 million of cash paid for capital expenditures in fiscal 2017, \$3.1 million of capital expenditures for property and equipment was accrued in accounts payable as of February 25, 2017.

The Company intends to invest approximately \$45-50 million in capital expenditures during fiscal 2018. Of this amount, approximately \$30 million is intended for the construction of approximately 3 new brick and mortar stores and the remodeling or repositioning of 50-55 existing brick and mortar stores. In addition, approximately \$5 million is expected to be spent to reposition and expand approximately 70 shops within department stores. The remaining \$10-15 million to be invested is related primarily to the Company's mobile first strategy, digital site enhancements, increased CRM loyalty management capabilities, and information security enhancements. 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 from continuing operations was \$69.0 million, \$94.0 million, and \$74.7 million for fiscal 2017, 2016, and 2015, respectively. The \$25.0 million decrease in cash used in financing activities in fiscal 2017 as compared to fiscal 2016 was primarily due to an \$27.1 million decrease in stock repurchases and a \$0.2 million increase in excess tax benefits from share-based compensation, offset partially by a \$1.9 million decrease in proceeds from the issuance of common stock, and a \$0.3 million increase in dividends paid to shareholders.

The \$19.3 million decrease in cash used in financing activities in fiscal 2016 as compared to fiscal 2015 was primarily due to a \$11.8 million decrease in stock repurchases, a \$4.6 million decrease in proceeds from the issuance of common stock, a \$1.9 million decrease in excess tax benefits from share-based compensation, and a \$1.0 million increase in dividends paid to shareholders.

Credit Facility. On November 30, 2016, the Company entered into an unsecured \$125 million Second Amended and Restated Revolving Credit Facility Credit Agreement (the "2017 Credit Agreement") with a syndicate of financial institutions, which expires on November 30, 2021. The 2017 Credit Agreement replaces in its entirety the \$100

million unsecured Amended and Restated Revolving Credit Facility Credit Agreement entered into on November 30, 2012 (the “Prior Credit Agreement”).

All commitments under the Prior Credit Agreement were terminated effective November 30, 2016 and transferred to the 2017 Credit Agreement.

The 2017 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 2017 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 \$1.5 million in stand-by letters of credit were outstanding as of February 25, 2017. Accordingly, the total revolving credit availability under the 2017 Credit Agreement was \$123.5 million as of February 25, 2017.

The Company's ability to borrow monies in the future under the 2017 Credit Agreement is subject to certain conditions, including compliance with certain covenants and making certain representations and warranties. The 2017 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 2017 Credit Agreement) and minimum consolidated tangible net worth (as defined in the 2017 Credit Agreement). The covenants contained in the 2017 Credit Agreement did not substantively change from the Prior Credit Agreement. The Company was in compliance with all such covenants as of February 25, 2017.

The 2017 Credit Agreement pricing grid is adjusted quarterly and is based on the Company's leverage ratio. The minimum pricing is LIBOR plus 0.90% or Base Rate (as defined in the 2017 Credit Agreement) and the maximum pricing is LIBOR plus 1.75% or Base Rate plus 0.75%. The Company is also subject to an unused commitment fee based on the Company's leverage ratio with minimum pricing of 0.10% and maximum pricing of 0.25%. In addition, the Company is subject to a letter of credit fee based on the Company's leverage ratio with minimum pricing of 0.40% and maximum pricing of 1.25%. The 2017 Credit Agreement's pricing grid is consistent with the pricing grid used in the Prior Credit Agreement.

Share Repurchase Program. On July 21, 2011, the Company's Board of Directors authorized a share repurchase program to repurchase shares of the Company's common stock with subsequent amendments on March 26, 2015 and July 13, 2016 authorizing further share repurchases through December 31, 2019 (the "Share Repurchase Program"). The Company repurchased 2.5 million shares of its common stock at an average price of \$21.11 per share for an aggregate amount of \$52.8 million in fiscal 2017. As of February 25, 2017, there were 4,791,936 shares remaining available to repurchase under the Share Repurchase Program.

As of February 25, 2017, the Company held 19,421,270 shares of its common stock as treasury shares at an average price of \$20.52 per share for an aggregate carrying amount of \$398.6 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 available for issuance upon the exercise of options and for awards of restricted stock and other awards is limited under The Finish Line, Inc. 2009 Incentive Plan Amended and Restated as of April 16, 2014, and further amended as of June 27 and July 14, 2016 (the "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 January 11, 2017, the Company increased its quarterly cash dividend to \$0.11 per share from \$0.10 per share of the Company's common stock. The Company declared dividends of \$17.0 million, \$16.5 million, and \$15.7 million during fiscal 2017, 2016, and 2015, respectively. As of February 25, 2017 and February 27, 2016, dividends declared but not paid were \$4.5 million and \$4.3 million, respectively. Further declarations of dividends remain at the discretion of the Company's Board of Directors.

Contractual Obligations

The following table summarizes the Company's long-term contractual obligations as of February 25, 2017 (in thousands):

	Total	Payments Due by Fiscal Year				Other
		Less than 1 Year	1-3 Years	3-5 Years	After 5 Years	
Contractual Obligations:						
Operating lease obligations(1)	\$722,751	\$122,914	\$223,365	\$199,762	\$176,710	\$—
Other liabilities(2)(3)	8,112	—	—	—	—	8,112
Total contractual obligations	\$730,863	\$122,914	\$223,365	\$199,762	\$176,710	\$8,112

Includes the guaranteed minimum license fee associated with shops within department stores. The Company has entered into an arrangement to sell product in shops within department stores which includes a guaranteed minimum license fee in fiscal years 2017 through 2023. The license fee is compensation for use of the selling space, administrative and operational services, and use of the department store's name.

Other liabilities includes future estimated payments associated with unrecognized tax benefits of \$2.6 million. The Company expects to make cash outlays in the future related to unrecognized tax benefits. The liability is included in the "Other" category as the timing and amount of these payments is not known until the matters are resolved with relevant tax authorities. For further information related to unrecognized tax benefits, see Note 6, "Income Taxes," to the consolidated financial statements included in Item 8, Financial Statements and Supplementary Data.

Other liabilities includes future payments related to our non-qualified deferred compensation plan of \$5.5 million. The liability is included in the "Other" category as the timing of these future payments is not known until an employee leaves the Company or otherwise requests an in-service distribution. For further information related to our non-qualified deferred compensation plan, see Note 7, "Retirement Plans," to the consolidated financial statements included in Item 8, Financial Statements and Supplementary Data.

In addition to the contractual obligations noted in the table above, the Company enters into arrangements with suppliers to purchase merchandise up to 12 months in advance of expected delivery in the ordinary course of business. These open purchase orders do not contain any significant termination payments or other penalties if canceled. Total open purchase orders outstanding at February 25, 2017 were \$581.4 million, and have not been included in the table above.

Off Balance Sheet Arrangements

The Company has no off balance sheet arrangements as that term is defined in Item 303(a)(4) of Regulation S-K. Item 7A. Quantitative and Qualitative Disclosures About Market Risks

The Company is exposed to changes in interest rates primarily from its investments in marketable securities from time to time. The Company did not have any marketable securities as of February 25, 2017. The Company does not use interest rate derivative instruments to manage exposure to interest rate changes.

Table of Contents

Item 8. Financial Statements and Supplementary Data

Management's Report on Internal Control Over Financial Reporting

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

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

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of February 25, 2017. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control—Integrated Framework (2013 framework). Based on management's assessment, it believes that, as of February 25, 2017, the Company's internal control over financial reporting is effective based on those criteria.

The Company's independent registered public accounting firm, Ernst & Young LLP, has issued an attestation report on the Company's internal control over financial reporting. Ernst & Young LLP's report appears on the following page and expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of February 25, 2017.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited The Finish Line, Inc.'s internal control over financial reporting as of February 25, 2017 based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). The Finish Line, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, The Finish Line, Inc. maintained, in all material respects, effective internal control over financial reporting as of February 25, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of The Finish Line, Inc. as of February 25, 2017 and February 27, 2016, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the three years in the period ended February 25, 2017 of The Finish Line, Inc. and our report dated April 25, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Indianapolis, Indiana

April 25, 2017

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of The Finish Line, Inc. as of February 25, 2017 and February 27, 2016, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the three years in the period ended February 25, 2017. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Finish Line, Inc. at February 25, 2017 and February 27, 2016, and the consolidated results of its operations and its cash flows for each of the three years in the period ended February 25, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), The Finish Line, Inc.'s internal control over financial reporting as of February 25, 2017, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated April 25, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Indianapolis, Indiana

April 25, 2017

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

	February 25, 2017	February 27, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 90,856	\$ 79,495
Accounts receivable, net	20,470	16,482
Merchandise inventories, net	331,146	347,966
Income taxes receivable	35,559	28,877
Other current assets	13,379	17,009
Current assets held for sale	—	31,524
Total current assets	491,410	521,353
Property and equipment:		
Land	1,557	1,557
Building	44,249	43,665
Leasehold improvements	206,446	193,852
Furniture, fixtures, and equipment	281,730	253,897
Construction in progress	6,503	9,164
	540,485	502,135
Less accumulated depreciation	292,588	263,068
Total property and equipment, net	247,897	239,067
Other assets, net	7,161	7,857
Long-term assets held for sale	—	49,271
Total assets	\$ 746,468	\$ 817,548
See accompanying notes.		

Table of Contents

THE FINISH LINE, INC.

CONSOLIDATED BALANCE SHEETS - (CONTINUED)

(in thousands, except per share data)

	February 25, 2017	February 27, 2016
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 166,614	\$ 150,050
Employee compensation	15,407	17,602
Accrued property and sales tax	9,750	10,225
Other liabilities and accrued expenses	30,200	30,029
Current liabilities held for sale	—	13,281
Total current liabilities	221,971	221,187
Commitments and contingencies		
Deferred credits from landlords	32,133	30,503
Deferred income taxes	32,226	25,441
Other long-term liabilities	8,640	10,869
Long-term liabilities held for sale	—	1,904
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 - (2017 – 40,337; 2016 – 42,377)	601	601
Additional paid-in capital	245,335	237,129
Retained earnings	604,136	639,296
Treasury stock, shares held - (2017 – 19,421; 2016 – 17,381)	(398,574)	(349,382)
Total shareholders' equity	451,498	527,644
Total liabilities and shareholders' equity	\$ 746,468	\$ 817,548
See accompanying notes.		

Table of Contents

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

	Year Ended		
	February 25, 2017	February 27, 2016	February 28, 2015
Net sales	\$1,844,393	\$1,798,982	\$1,750,707
Cost of sales (including occupancy costs)	1,295,989	1,242,960	1,182,365
Gross profit	548,404	556,022	568,342
Selling, general, and administrative expenses	480,897	469,836	432,007
Impairment charges and store closing costs	13,312	43,637	2,030
Operating income	54,195	42,549	134,305
Interest expense, net	279	65	15
Income from continuing operations before income taxes	53,916	42,484	134,290
Income tax expense	18,760	13,562	45,191
Net income from continuing operations	35,156	28,922	89,099
Net loss from discontinued operations, net of tax	(53,364)	) (7,126	) (9,357)
Net (loss) income	(18,208	) 21,796	79,742
Net loss attributable to redeemable noncontrolling interest of discontinued operations	—	96	2,251
Net (loss) income attributable to The Finish Line, Inc.	\$(18,208	) \$21,892	\$81,993
Basic (loss) earnings per share attributable to The Finish Line, Inc. shareholders:			
Continuing operations	\$0.86	\$0.64	\$1.86
Discontinued operations	(1.31	) (0.15	) (0.15)
Basic (loss) earnings per share attributable to The Finish Line, Inc. shareholders	\$(0.45	) \$0.49	\$1.71
Diluted (loss) earnings per share attributable to The Finish Line, Inc. shareholders:			
Continuing operations	\$0.85	\$0.64	\$1.85
Discontinued operations	(1.29	) (0.16	) (0.15)
Diluted (loss) earnings per share attributable to The Finish Line, Inc. shareholders	\$(0.44	) \$0.48	\$1.70
Dividends declared per share	\$0.41	\$0.37	\$0.33
See accompanying notes.			

Table of Contents

THE FINISH LINE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended		
	February 27, 2017	February 27, 2016	February 28, 2015
Operating activities:			
Net (loss) income	\$(18,208)	\$ 21,796	\$ 79,742
Net loss from discontinued operations	(53,364)	(7,126)	(9,357)
Net income from continuing operations	35,156	28,922	89,099
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Impairment charges and store closing costs	13,312	43,637	2,030
Depreciation and amortization	49,376	42,190	36,491
Deferred income taxes	8,223	(570)	22,423
Loss on disposals of property and equipment	703	139	338
Share-based compensation	9,945	10,567	7,951
Excess tax benefits from share-based compensation	(472)	(316)	(2,206)
Changes in operating assets and liabilities:			
Accounts receivable, net	(3,988)	(255)	(143)
Merchandise inventories, net	16,820	(25,974)	(38,776)
Other assets	1,700	(8,339)	7,076
Accounts payable	15,576	26,888	14,828
Employee compensation	(3,515)	(323)	(5,291)
Income taxes receivable/payable	25,523	(15,629)	(16,469)
Other liabilities and accrued expenses	(2,475)	2,906	(386)
Deferred credits from landlords	1,630	3,345	657
Net cash provided by operating activities - continuing operations	167,514	107,188	117,622
Net cash used in operating activities - discontinued operations	(2,975)	(7,800)	(15,820)
Net cash provided by operating activities	164,539	99,388	101,802
Investing activities:			
Capital expenditures for property and equipment	(74,784)	(62,144)	(85,415)
Payments for sale of discontinued operations	(8,317)	—	—
Proceeds from disposals of property and equipment	596	52	38
Cash paid for investments	—	—	(2,177)
Net cash used in investing activities - continuing operations	(82,505)	(62,092)	(87,554)
Net cash used in investing activities - discontinued operations	(1,659)	(12,259)	(13,593)
Net cash used in investing activities	(84,164)	(74,351)	(101,147)
Financing activities:			
Borrowings on revolving credit facility	47,000	30,000	—
Repayments on revolving credit facility	(47,000)	(30,000)	—
Dividends paid to shareholders	(16,749)	(16,407)	(15,417)
Proceeds from issuance of common stock	39	1,976	6,609
Excess tax benefits from share-based compensation	472	316	2,206
Purchases of treasury stock	(52,776)	(79,880)	(68,053)
Net cash used in financing activities - continuing operations	(69,014)	(93,995)	(74,655)
Net cash used in financing activities - discontinued operations	—	(1,116)	(5,510)
Net cash used in financing activities	(69,014)	(95,111)	(80,165)
Net increase (decrease) in cash and cash equivalents	11,361	(70,074)	(79,510)

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Cash and cash equivalents at beginning of year	79,495	149,569	229,079
Cash and cash equivalents at end of year	\$90,856	\$ 79,495	\$ 149,569
Supplemental disclosure of noncash operating and investing activities:			
Capital expenditures incurred but not yet paid	\$3,111	\$ 5,700	\$ 13,532
See accompanying notes.			

41

Table of Contents

THE FINISH LINE, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands)

	Number of Shares		Amount	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Totals
	Common	Treasury	Common				
Balance at March 1, 2014	48,117	11,641	\$ 601	\$ 224,619	\$ 567,631	\$(210,667)	\$ 582,184
Net income attributable to The Finish Line, Inc.					81,993		81,993
Cash dividends declared (\$0.33 per share)					(15,714)		(15,714)
Non-qualified common stock options exercised and related tax benefits	484	(484)		2,858		5,772	8,630
Share-based compensation				8,193			8,193
Restricted shares vested, net of repurchase for taxes	122	(122)		(2,032)		778	(1,254)
Shares issued under employee stock purchase plan	29	(29)		352		297	649
Treasury stock purchased	(2,700)	2,700				(68,053)	(68,053)
Purchase of redeemable noncontrolling membership interest of discontinued operations				(6,984)			(6,984)
Balance at February 28, 2015	46,052	13,706	601	227,006	633,910	(271,873)	589,644
Net income attributable to The Finish Line, Inc.					21,892		21,892
Cash dividends declared (\$0.37 per share)					(16,506)		(16,506)
Non-qualified common stock options exercised and related tax benefits	111	(111)		887		1,339	2,226
Share-based compensation				10,932			10,932
Restricted shares vested, net of repurchase for taxes	88	(88)		(1,399)		629	(770)
Shares issued under employee stock purchase plan	39	(39)		321		403	724
Treasury stock purchased	(3,913)	3,913				(79,880)	(79,880)
Purchase of redeemable noncontrolling membership interest of discontinued operations				(618)			(618)
Balance at February 27, 2016	42,377	17,381	601	237,129	639,296	(349,382)	527,644
Net income attributable to The Finish Line, Inc.					(18,208)		(18,208)
Cash dividends declared (\$0.41 per share)					(16,952)		(16,952)
Non-qualified common stock options exercised and related tax benefits	179	(179)		1,517		2,036	3,553
Share-based compensation				11,060			11,060
Restricted shares vested, net of repurchase for taxes	244	(244)		(4,600)		1,125	(3,475)
Shares issued under employee stock purchase plan	37	(37)		229		423	652
Treasury stock purchased	(2,500)	2,500				(52,776)	(52,776)

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Balance at February 25, 2017	40,337	19,421	\$ 601	\$245,335	\$604,136	\$(398,574)	\$451,498
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See accompanying notes.

Table of Contents

THE FINISH LINE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Significant Accounting Policies

Basis of Presentation. The consolidated financial statements include the accounts of The Finish Line, Inc. and its subsidiaries (collectively, “Finish Line” or the “Company”). All intercompany transactions and balances have been eliminated. Throughout these notes to the consolidated financial statements, fiscal years ended February 25, 2017, February 27, 2016, and February 28, 2015 are referred to as fiscal 2017, 2016, and 2015, respectively. The Company’s consolidated balance sheets, statements of operations, and cash flows presented reflect its former JackRabbit business as discontinued operations (See Note 2 - “Discontinued Operations and Goodwill Impairment”). The Company uses a “Retail” calendar. The Company’s fiscal year ends on the Saturday closest to the last day of February and included 52 weeks in fiscal 2017, 2016, and 2015.

Nature of Operations. Finish Line is a premium retailer of athletic shoes, apparel, and accessories for men, women, and kids, with 573 mall-based locations throughout the United States and Puerto Rico, which average 5,564 square feet as of April 2, 2017. In addition, the Company has an online presence through its e-commerce and mobile sites. In addition, the Company is the exclusive retailer of athletic shoes, both in-store and online, for Macy’s Retail Holdings, Inc., Macy’s Puerto Rico, Inc., and Macys.com, Inc. (collectively, “Macy’s”). The Company is responsible for the athletic footwear assortment, inventory, fulfillment, and pricing at all of Macy’s locations and online at www.macys.com. The Company operates branded and unbranded shops in-store at Macy’s. Branded shops include Finish Line signage within those shops and are staffed by Finish Line employees, while unbranded shops do not include Finish Line signage and are generally serviced by Macy’s employees. There are no differences in the merchandise that is sold, the classification of revenue recorded at retail, or the Company’s operation of the athletic footwear inventory and business between branded and unbranded shops and www.macys.com.

In fiscal 2017, the Company purchased approximately 92% of its merchandise from its five largest suppliers. The largest supplier, Nike, accounted for approximately 71%, 73%, and 73% of merchandise purchases in fiscal 2017, 2016, and 2015, respectively.

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

Segment Information. The Company operates 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 fiscal years (in thousands):

Category	2017	2016	2015
Footwear	\$1,715,348 93 %	\$1,619,002 90 %	\$1,550,691 89 %
Softgoods	129,045 7 %	179,980 10 %	200,016 11 %
Total net sales	\$1,844,393 100 %	\$1,798,982 100 %	\$1,750,707 100 %

Cash and Cash Equivalents. 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 February 25, 2017 and February 27, 2016, substantially all of the Company’s cash was invested in deposit accounts at banks. The majority of payments due from banks for credit card transactions process within 24 to 48 hours and are accordingly classified as cash and cash equivalents.

Merchandise Inventories. Merchandise inventories are valued at the lower of cost or market using a weighted-average cost method. The Company’s valuation of merchandise inventory includes markdown adjustments for merchandise that will be sold below cost and the impact of inventory shrink. Markdowns are based upon historical information and assumptions about future demand and market conditions. Inventory shrink is based on historical information and assumptions about current inventory shrink trends. Supplier rebates are applied as a reduction to the cost of

merchandise inventories.

43

Table of Contents

Property and Equipment. Property and equipment are stated at cost and depreciated on a straight-line basis over the estimated useful lives of the assets: 30 years for buildings, three to 10 years for furniture, fixtures, and equipment, and three to 10 years for software. Improvements to leased premises are amortized on a straight-line basis over the shorter of the estimated useful life of the asset, generally 10 years, or the remaining lease term. Significant additions and improvements that extend the useful life of an asset are capitalized. Maintenance and repairs are charged to current operations as incurred. Depreciation expense for fiscal 2017, 2016, and 2015 was \$49.4 million, \$42.2 million, and \$36.5 million, respectively.

In accordance with Accounting Standards Codification (“ASC”) 360, the Company reviews its property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company considers historical performance and future estimated results in its evaluation of potential impairment and then compares the carrying amount of the asset to the estimated future undiscounted cash flows expected to be generated by the asset. If an asset is considered to be impaired, the impairment recognized is measured by comparing projected discounted cash flows to the asset’s carrying value. The estimation of fair value is measured by discounting expected future cash flows at the discount rate the Company utilizes to evaluate potential investments. The Company capitalizes certain external and internal computer software and software development costs incurred during the application development stage. The application development stage generally includes software design and configuration, coding, testing, and installation activities. Capitalized costs include only external direct costs of materials and services consumed in developing or obtaining internal-use software and payroll and payroll-related costs for employees who are directly associated with and devote time to the internal-use software project. Capitalization of such costs ceases no later than the point at which the project is substantially complete and ready for its intended use. Training and maintenance costs are expensed as incurred, while upgrades and enhancements are capitalized if it is probable that such expenditures will result in additional functionality. Capitalized software, net of accumulated amortization, is included as a component of property and equipment and was \$90.7 million and \$115.0 million at February 25, 2017 and February 27, 2016, respectively.

Store Closing Costs. Store closing costs represent the non-cash write-off of fixtures and equipment upon a store/shop closing. In the event a store is closed before its lease has expired, any estimated post-closing lease obligations are provided for when the leased space is no longer in use. The Company closed 43, 58, and 21 stores/shops in fiscal 2017, 2016, and 2015, respectively.

Goodwill and Other Intangible Assets. The Company accounts for goodwill and other intangible assets in accordance with ASC 350, Intangibles - Goodwill and Other (“ASC 350”). ASC 350 requires that goodwill and intangible assets with indefinite lives not be amortized, but reviewed for impairment if impairment indicators arise and, at a minimum, annually.

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

All of the Company’s goodwill and intangible assets were the result of acquisitions made by its discontinued operation. An impairment charge for goodwill was recorded during fiscal year 2017 (see Note 2 - “Discontinued Operations and Goodwill Impairment”). There were no similar impairment charges recognized by the Company or its discontinued operation in fiscal 2016 or 2015.

Leases. Deferred credits from landlords consist of step rent and allowances from landlords related to the Company's retail stores. Step rent represents the difference between actual minimum operating lease payments due and straight-line rent expense, which is recorded by the Company over the term of the lease, starting at the lease commencement date. Landlord allowances are generally comprised of amounts promised to the Company by landlords in the form of cash. These allowances are part of the negotiated terms of the lease. In situations where cash is to be received, the Company records a receivable for the full amount of the allowance when certain performance criteria articulated in the lease are met and a liability is concurrently established. This deferred credit from landlords is amortized into income (through lower rent expense) over the term, starting at the lease commencement date, of the applicable lease and the receivable is reduced as amounts are received from the landlord.

The Company recognizes rent expense for minimum lease payments on a straight-line basis over the expected lease term, including rent holidays, rent escalation clauses, and/or cancelable option periods where failure to exercise such options would

Table of Contents

result in an economic penalty. The commencement date of the lease term is the earlier of the date when the Company becomes legally obligated for the rent payments or the date when the Company takes possession of the leased space for build-out.

Certain leases provide for contingent rents and/or license fees, which are determined as a percentage of gross sales in excess of specified levels. The Company records a contingent rent liability in other liabilities and accrued expenses on the consolidated balance sheets and the corresponding rent expense when specified levels have been achieved or when management determines that achieving the specified levels during the fiscal year is probable.

Revenue Recognition. Revenues are recognized at the time the customer receives the merchandise, which for digital commerce revenues reflects an estimate of shipments not yet received by the customer based on shipping terms and estimated delivery times. As it relates to Macy's, the Company assumes the risks and rewards of ownership for merchandise at all of Macy's locations and online at www.macys.com, including risk of loss for delivery, returns, and loss of inventory value. Net sales include merchandise, net of returns, and excludes all taxes.

The Company sells gift cards with no expiration dates to customers and does not charge administrative fees on unused gift cards. The Company recognizes revenue from gift cards when they are redeemed by the customer. In addition, the Company recognizes revenue on unredeemed gift cards when the likelihood of the gift card being redeemed is remote and there is no legal obligation to remit the value of unredeemed gift cards to the relevant jurisdictions. The Company determines the gift card breakage rate based on historical redemption patterns. During each of the fourth quarters of fiscal 2017, 2016, and 2015, the Company recorded \$0.8 million of revenue related to gift card breakage. Gift card breakage is included in net sales in the Company's consolidated statements of operations, but it is not included in the comparable sales amounts.

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

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

Selling, General, and Administrative Expenses. Selling, general, and administrative expenses include store/shop payroll and related payroll benefits, store/shop operating expenses, advertising, cooperative advertising credits, share-based compensation, costs associated with operating its distribution center, license fees, and other corporate related expenses. Additionally, selling, general, and administrative expenses include inbound freight from vendors to the distribution center as well as outbound freight from the distribution center to stores/shops, to vendors for returns, to third party liquidators, and for shipments of product to customers.

Advertising. The Company expenses the cost of advertising as incurred, net of reimbursements for cooperative advertising. The reimbursements for cooperative advertising are agreed upon with vendors and are recorded in the same period as the associated expenses are incurred. The following table shows advertising expense for each of the following fiscal years (in thousands):

	2017	2016	2015
Advertising expense	\$47,137	\$42,668	\$38,035
Cooperative advertising credits	(7,882)	(6,342)	(4,540)
Net advertising expense	\$39,255	\$36,326	\$33,495

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

Income Taxes. The Company accounts for income taxes under the asset and liability method. Under this method, the amount of taxes currently payable or refundable are accrued and deferred tax assets and liabilities are recognized for

the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets are also recognized for realizable loss and tax credit carryforwards. The deferred tax assets may be reduced by a valuation allowance, which is established when it is more likely than not that all or some portion of the deferred tax assets will not be realized. In addition, management is required to evaluate all available evidence, including estimating future taxable income by taxing jurisdictions, the future reversal of temporary differences, tax planning strategies, and recent results of operations, when making its judgment to determine whether or not to

Table of Contents

record a valuation allowance for a portion, or all, of its deferred tax assets. Deferred tax assets and liabilities are measured using enacted income tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in income tax rates is recognized in the Company's consolidated statements of operations in the period that includes the enactment date.

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

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

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).

Restricted stock units without performance criteria are included 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. When discontinued operations are reported, income from continuing operations represents the "control number" in determining whether potential shares of common stock are dilutive or anti-dilutive. Participating securities have the effect of diluting both basic and diluted earnings per share during periods of net income.

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

As of February 25, 2017 and February 27, 2016, the Company had not invested in, nor did it have, any derivative financial instruments.

Share-Based Compensation. The Company accounts for share-based compensation by the measuring and recognizing of compensation expense for all share-based awards made to employees and directors based on estimated fair values on the grant date. The Company is required to estimate the fair value of share-based awards on the date of grant and

recognize as expense the value of the portion of the award that is ultimately expected to vest over the requisite service period.

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

Table of Contents

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

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

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

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

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

Self-Insurance Reserves. The Company is self-insured for certain losses related to health, workers' compensation, and general liability insurance, although the Company maintains stop-loss coverage with third-party insurers to limit its liability exposure. Liabilities associated with these losses are estimated in part by considering historical claims experience, industry factors, severity factors, and other actuarial assumptions.

Recent Accounting Pronouncements. In May 2014, the Financial Accounting Standards Board ("FASB") issued guidance on revenue from contracts with customers and has subsequently issued several amendments which clarify the guidance as well as provide guidance for implementation. The guidance outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The guidance requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. In August 2015, the FASB approved a one year deferral of the effective date, to make it effective for annual or interim reporting periods beginning after December 15, 2017. The guidance allows for either a full retrospective or a modified retrospective transition method. The adoption of the new guidance could impact the timing or presentation of revenue recognition and related balance sheet accounts associated with the Company's gift cards, loyalty programs, and product returns. The Company is currently assessing the impact of adopting this guidance within these areas and others, as well as the available transition methods, but does not, at this time, anticipate a material impact to its consolidated results of operations, financial position, and cash flows.

In July 2015, the FASB issued guidance on simplifying the measurement of inventory. The guidance, which applies to inventory that is measured using any method other than the last-in, first-out ("LIFO") or retail inventory method, requires that entities measure inventory at the lower of cost or net realizable value. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016 and should be applied on a prospective basis. The Company is currently assessing the potential impact of adopting this guidance, but does not, at this time, anticipate a material impact to its consolidated results of operations, financial position, or cash flows.

In February 2016, the FASB issued guidance on accounting for leases. A primary purpose of the guidance is to increase transparency and comparability among organizations by recognizing right-of-use assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Specifically, lessees will be required to recognize the rights and obligations resulting from leases classified as operating leases as assets and liabilities. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and requires a modified retrospective adoption, with early adoption permitted. The Company is currently assessing the impact of adopting this guidance and its potential impact to its consolidated results of operations, financial position, cash flows, and related disclosures and is expecting the guidance to have a material impact due to

the significant number of store leases that the Company is under contract for.

In March 2016, the FASB issued guidance on simplifying several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, classification on the statement of cash flows, and accounting for forfeitures. The guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, and early adoption is permitted. The manner of adoption varies, with certain provisions applied on a retrospective or modified retrospective approach, while others are applied prospectively. The Company will elect to apply the guidance related to the presentation of excess tax benefits within the statements of cash flows using a retrospective transition method, and as a result, excess tax benefits related to share-based awards which are currently classified as cash flows from financing activities will be reclassified as cash flows from operation activities. The Company will continue to expense share-based awards based on awards ultimately expected to vest, which will require the Company to continue to

Table of Contents

estimate forfeitures on the date of their grant. The Company has assessed the impact of adopting this guidance and expects the change relating to the excess tax benefits (detriments) to potentially introduce volatility to the Company's effective income tax rate as the recognition of the excess tax benefits (detriments) are dependent on stock option award exercise patterns as well as the fair value of the price of the Company's stock when restricted stock awards vest which are inherently unpredictable. Had the Company adopted the guidance in fiscal 2017, it would not have had a material impact to its consolidated results of operations, financial position, or cash flows.

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

2. Discontinued Operations and Goodwill Impairment

On February 24, 2017 (the "Acquisition Date"), the Company completed the sale of its JackRabbit division to affiliates of CriticalPoint Capital, LLC (the "Buyers"). The transaction took the form of a sale by the Company of its entire membership interest in its affiliated company, which owns JackRabbit, and a payment of \$10.1 million, of which \$1.8 million was held back and is payable based on certain conditions that need to be met by the Buyers. Included in the \$10.1 million payment to the Buyers is an estimated net working capital adjustment of \$1.1 million, which was included in the \$1.8 million payment held back discussed above. The purchase price is subject to working capital and other customary adjustments set forth in the purchase agreement. The Buyers acquired all JackRabbit assets, inventory, leasehold interests, customary liabilities, intellectual property, and the JackRabbit trademark and name pursuant to the Agreement.

The Company recorded a loss on sale of \$33.5 million, which represented the total cash payments to the Buyers of \$10.1 million, net assets assumed by the Buyers of \$18.3 million, and one-time costs of approximately \$5.1 million associated with the transaction.

The following table presents key financial results of JackRabbit included in "Net loss from discontinued operations, net of tax" for each of the following fiscal years (in thousands):

	Year Ended		
	February 25, 2017	February 27, 2016	February 28, 2015
Net sales	\$89,739	\$89,906	\$69,879
Cost of sales (including occupancy costs)	68,495	62,936	54,419
Gross profit	21,244	26,970	15,460
Selling, general, and administrative expenses	30,488	33,824	27,447
Impairment charges and store closing costs	44,202	5,055	1,888
Loss on sale of discontinued operations	33,500	—	—
Loss from discontinued operations before income tax benefit	(86,946)	(11,909)	(13,875)
Income tax benefit	33,582	4,783	4,518
Net loss from discontinued operations, net of tax	\$(53,364)	\$(7,126)	\$(9,357)

Table of Contents

The following table presents the major classes of assets and liabilities presented as held for sale as of February 27, 2016 related to JackRabbit (in thousands):

ASSETS**Current Assets:**

Accounts receivable, net	\$ 1,745
Merchandise inventories, net	28,540
Other	1,239
Total current assets	31,524

Property and equipment:

Building	103
Leasehold improvements	4,341
Furniture, fixtures, and equipment	2,586
Construction in progress	18
	7,048

Less accumulated depreciation	2,722
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Total property and equipment, net	4,326
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Goodwill	44,029
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Other assets, net	916
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Total assets	\$80,795
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LIABILITIES**Current Liabilities:**

Accounts payable	\$7,601
Employee compensation	1,237
Accrued property and sales tax	485
Other liabilities and accrued expenses	3,958
Total current liabilities	13,281
Deferred credits from landlords	1,824
Other long-term liabilities	80
Total liabilities	\$15,185

During fiscal 2017, the Company determined that it was more likely than not that the fair value of JackRabbit was less than its carrying value, and upon completion of an impairment analysis, that goodwill was impaired during the Company's third fiscal quarter. The decrease in JackRabbit's fair value from the Company's prior year impairment analysis was the result of preliminary indications of interest for JackRabbit that indicated that the fair value was below its carrying value. Fair value of the JackRabbit reporting unit was determined using preliminary bids from interested parties. As a result of the second step of the goodwill impairment test, JackRabbit's goodwill had no implied fair value and was written down to zero. This resulted in a pretax non-cash goodwill impairment charge of \$44.0 million that is reflected in asset impairment charges in discontinued operations for the year ended February 25, 2017.

During fiscal 2016, the Company completed one immaterial acquisition 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 \$9.1 million. Goodwill is deductible for U.S. federal income tax purposes.

Table of Contents

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

	Allocation of Purchase Price
Goodwill	\$ 9,147
Tangible assets, net of liabilities (216)	
Total purchase price	\$ 8,931

The following table provides a reconciliation of the Company's goodwill for each of the following fiscal years (in thousands):

	2017	2016
Beginning balance	\$44,029	\$34,719
Acquisitions	—	9,147
Other	—	163
Impairment (44,029)	—	
Ending balance	\$—	\$44,029

3. Fair Value Measurements

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

	February 25, 2017			February 27, 2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets:						
Non-qualified deferred compensation plan	\$5,517	\$ —	—	\$5,531	\$ —	—

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. There were no liabilities measured at fair value and 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 the 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 Company has certain assets that are measured at fair value on a non-recurring basis and adjusted to fair value under certain circumstances that include those described in Note 2, Discontinued Operations and Goodwill Impairment and Note 11, Impairment Charges and Store Closing Costs. The categorization used to price the implied fair value of goodwill and assets was considered a Level 3 measurement due to the subjective nature of the unobservable inputs used to determine the fair values.

Additionally, in connection with the acquisitions and purchase price allocations that are described in Note 2, Discontinued Operations and Goodwill Impairment, 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 fair values.

Table of Contents**4. Debt Agreement**

On November 30, 2016, the Company entered into an unsecured \$125 million Second Amended and Restated Revolving Credit Facility Credit Agreement (the “2017 Credit Agreement”) with a syndicate of financial institutions, which expires on November 30, 2021. The 2017 Credit Agreement replaces in its entirety the \$100 million unsecured Amended and Restated Revolving Credit Facility Credit Agreement entered into on November 30, 2012 (the “Prior Credit Agreement”). All commitments under the Prior Credit Agreement were terminated effective November 30, 2016 and transferred to the 2017 Credit Agreement.

The 2017 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 2017 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 \$1.5 million in stand-by letters of credit were outstanding as of February 25, 2017. Accordingly, the total revolving credit availability under the 2017 Credit Agreement was \$123.5 million as of February 25, 2017.

The Company’s ability to borrow monies in the future under the 2017 Credit Agreement is subject to certain conditions, including compliance with certain covenants and making certain representations and warranties. The 2017 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 2017 Credit Agreement) and minimum consolidated tangible net worth (as defined in the 2017 Credit Agreement). The covenants contained in the 2017 Credit Agreement did not substantively change from the Prior Credit Agreement. The Company was in compliance with all such covenants as of February 25, 2017.

The 2017 Credit Agreement pricing grid is adjusted quarterly and is based on the Company’s leverage ratio. The minimum pricing is LIBOR plus 0.90% or Base Rate (as defined in the 2017 Credit Agreement) and the maximum pricing is LIBOR plus 1.75% or Base Rate plus 0.75%. The Company is also subject to an unused commitment fee based on the Company’s leverage ratio with minimum pricing of 0.10% and maximum pricing of 0.25%. In addition, the Company is subject to a letter of credit fee based on the Company’s leverage ratio with minimum pricing of 0.40% and maximum pricing of 1.25%. The 2017 Credit Agreement's pricing grid is consistent with the pricing grid used in the Prior Credit Agreement.

5. Leases

The Company leases retail stores under non-cancelable operating leases, which generally have lease terms ranging from three to ten years. Most of these lease arrangements do not provide for renewal periods; however, management expects that in the normal course of business, expiring leases will generally be renewed or, upon making a decision to relocate, replaced by leases at other premises. The Company recognizes rent expense for minimum lease payments on a straight-line basis over the expected lease term, including rent holidays, rent escalation clauses, and/or cancelable option periods where failure to exercise such options would result in an economic penalty. In addition, the commencement date of the lease term is the earlier of the date when the Company becomes legally obligated for the rent payments or the date when the Company takes possession of the leased space for build-out.

In addition to rent payments, leases generally require additional payments covering real estate taxes, insurance, maintenance, and other costs. These additional payments are excluded from the table below. The components of rent expense incurred under these leases are as follows for each of the following fiscal years (in thousands):

	2017	2016	2015
Minimum rent	\$ 103,935	\$ 102,916	\$ 95,524
Contingent rent	34,397	28,560	30,069
Rent expense	\$ 138,332	\$ 131,476	\$ 125,593

Table of Contents

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

2018	\$ 122,914
2019	115,564
2020	107,801
2021	102,650
2022	97,112
Thereafter	176,710
Total	\$ 722,751

The lease commitments in the table above include the guaranteed minimum license fee associated with shops within department stores.

6. Income Taxes

The following table sets forth the components of income tax expense from continuing operations for each of the following fiscal years (in thousands):

	2017	2016	2015
Currently payable:			
Federal	\$9,422	\$13,553	\$21,055
State	1,115	579	1,713
	10,537	14,132	22,768
Deferred:			
Federal	6,944	533	20,567
State	1,279	(1,103)	1,856
	8,223	(570)	22,423
Total income tax expense	\$ 18,760	\$ 13,562	\$ 45,191

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

	February 25, 2017	February 27, 2016
Deferred tax assets:		
Deferred credits from landlords	\$3,243	\$10,719
Share-based compensation	8,655	6,462
Compensation accrual	1,253	1,091
Deferred compensation	2,151	2,149
Other	9,199	8,692
Total deferred tax assets	24,501	29,113
Deferred tax liabilities:		
Property and equipment	(38,094)	(39,350)
Merchandise inventories	(18,520)	(12,286)
Other	(113)	(2,918)
Total deferred tax liabilities	(56,727)	(54,554)
Net deferred tax liability	\$(32,226)	\$(25,441)

Table of Contents

The effective income tax rate from continuing operations varies from the statutory federal income tax rate for fiscal 2017, 2016, and 2015 due to the following:

	2017	2016	2015
Tax at statutory federal income tax rate	35.0 %	35.0 %	35.0 %
State income taxes, net of federal benefit	4.1	0.7	2.0
Tax contingencies	(0.7)	—	(0.3)
Research and development tax credits	(0.6)	(4.4)	—
Benefit of worthless stock deduction	—	—	(3.2)
Retired executive officer's compensation	(2.9)	—	—
Other	(0.1)	0.6	0.2
	34.8 %	31.9 %	33.7 %

During fiscal 2017, the Company's Executive Chairman retired. As a result of the retirement, the executive's compensation was no longer subject to the Internal Revenue Code Section 162 limitation on the deduction for non-performance based compensation as he was not an employee at the end of the fiscal year. The Company claimed a tax benefit upon retirement for expenses not deducted in prior years related to the executive's time based restricted stock that had not vested in prior years, but did vest during fiscal 2017. During fiscal 2017, the increase in state income taxes, net of federal benefit, compared to fiscal 2016 is primarily attributable to state research and development credits generated during fiscal 2016 that were not generated in fiscal 2017. During fiscal 2016, the reduction in the state income taxes compared to fiscal 2015, net of the federal benefit above, is primarily attributable to state research and development credits generated during fiscal 2016.

As of February 25, 2017, the Company had \$46.8 million of net operating loss carryforwards for state tax purposes. If not used, these carryforwards will expire between fiscal 2023 and 2033. As of February 25, 2017, the Company also had state tax credit carryforwards of \$1.4 million. If not used, these state tax credit carryforwards will expire between fiscal 2025 and 2027.

The Company recorded a valuation allowance of \$0.6 million in fiscal 2017 that is included in the "Other" section of total deferred tax assets. In assessing the realizability of the deferred tax asset related to certain state net operating losses and credits, the Company considered whether it was more likely than not to utilize the state net operating losses and credits before they would expire. The ultimate realization of the state net operating losses and state credits is contingent on whether a substantial amount of income may be generated in that specific state in the future allowing a benefit of the loss and credit before they expire. Based on current estimates of future taxable income in certain states, the Company does not believe it is more likely than not to generate enough taxable income allowing for full utilization of certain state net operating losses and credits before they would expire.

Payments (refunds) of income taxes for fiscal 2017, 2016, and 2015 equaled \$(15.1) million, \$29.6 million, and \$39.3 million, respectively.

The Company is subject to U.S. federal income tax as well as income tax by multiple state and local jurisdictions. The Company has substantially concluded all U.S. federal income tax matters through fiscal 2012 and all state and local income tax matters through fiscal 2009. In the future, the Company may resolve some or all of the issues related to tax matters of open fiscal years, which may require the Company to make payments to settle agreed upon liabilities.

Table of Contents

Uncertain Tax Positions

As of February 25, 2017 and February 27, 2016, the Company had \$2.6 million and \$3.2 million of unrecognized tax benefits respectively, included in other long-term liabilities on the consolidated balance sheets, \$1.9 million and \$2.3 million respectively, of which, if recognized, would affect the effective income tax rate. Of the total unrecognized tax benefits as of February 25, 2017, it is reasonably possible that the total unrecognized tax benefits could decrease by up to \$0.4 million during the next twelve months due to audit settlements, expiration of statute of limitations, or other resolution of uncertainties. Due to the uncertain and complex application of tax rules and regulations, it is possible that the ultimate resolution of audits may result in liabilities that could be different from this estimate. In such case, the Company will record additional tax expense or tax benefit in the tax provision or reclassify amounts on the consolidated balance sheets in the period in which such matter is effectively settled with the tax authority.

The Company recognizes interest and penalty expense, as well as reversal of expense, related to unrecognized tax benefits as components of income tax expense. In fiscal 2017, 2016, and 2015, \$(0.3) million, \$(0.8) million, and \$(0.5) million, respectively, of interest and penalties were included in income tax expense on the consolidated statements of operations. The Company has accrued \$0.4 million and \$0.7 million for the payment of interest and penalties as of February 25, 2017 and February 27, 2016, respectively.

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

	2017	2016	2015
Unrecognized tax benefits at beginning of year	\$2,485	\$1,999	\$7,638
Increases in tax positions for prior years	212	1,167	—
Decreases in tax positions for prior years	(26)	(259)	(5,595)
Increases in unrecognized tax benefits as a result of current year activity	19	176	50
Decreases to unrecognized tax benefits relating to settlements with taxing authorities	—	—	(29)
Decreases to unrecognized tax benefits as a result of a lapse of the applicable statute of limitations	(535)	(598)	(65)
Unrecognized tax benefits at end of year	\$2,155	\$2,485	\$1,999

The significant decrease in unrecognized tax benefits during fiscal 2015 reflects the completion of an IRS audit covering the years ending February 26, 2011, March 3, 2012, and March 2, 2013 and the filing of an automatic accounting method change to change the tax accounting treatment for a deferred tax asset. As a result of the resolution of the IRS audit and the filing of the automatic accounting method change, certain items reserved for in prior years no longer required a reserve.

7. Retirement Plans

The Company sponsors a qualified defined contribution profit sharing plan, which covers substantially all employees of the Company who are age twenty-one or older. Contributions to this plan are discretionary and are allocated to employees as a percentage of each covered employee's wages. The plan has a 401(k) feature whereby the Company matches employee contributions to the plan. The Company matches 100 percent of employee contributions to the 401(k) plan on the first three percent of an employee's wages and matches an additional 50 percent of employee contributions to the 401(k) plan on the next two percent up to five percent of their wages (maximum of four percent Company match). Employee contributions and Company matching contributions vest immediately. The Company's matching contribution expense for the 401(k) plan in fiscal 2017, 2016, and 2015 was \$1.8 million, \$1.8 million, and \$1.5 million, respectively.

The Company has a non-qualified deferred compensation plan for highly compensated employees whose contributions are limited under the qualified defined contribution profit sharing plan. Amounts contributed and deferred under the non-qualified deferred compensation plan are credited or charged with the performance of investment options offered under the plan and elected by the participants. In the event of bankruptcy, the assets of this plan are available to satisfy the claims of general creditors. The liability for compensation deferred under the Company's non-qualified deferred compensation plan was \$5.5

Table of Contents

million for both fiscal 2017 and 2016 and is included in other long-term liabilities on the consolidated balance sheets. The Company's total expense recorded for this plan was \$0 in each of fiscal 2017, 2016, and 2015.

8. Share-Based Compensation

General

In July 2009, the Company's shareholders approved and adopted The Finish Line, Inc. 2009 Incentive Plan (the "2009 Incentive Plan"), previously approved by the Company's Board of Directors. In July 2014, the Company's shareholders approved and adopted The Finish Line, Inc. 2009 Incentive Plan Amended and Restated as of April 16, 2014, which was further amended as of June 27 and July 14, 2016 (the "Amended and Restated 2009 Incentive Plan"). All such amendments were previously approved by the Company's Board of Directors. The Company's Board of Directors has reserved an aggregate of 10,500,000 shares of common stock available for issuance under the Amended and Restated 2009 Incentive Plan. The number of shares which may be used for awards other than stock options or stock appreciation rights is limited to 4,000,000. Under the Amended and Restated 2009 Incentive Plan, the Company can provide newly issued shares or treasury stock to satisfy stock option exercises and for the issuance of restricted stock. Future grants are no longer permitted under the 2002 Stock Incentive Plan of The Finish Line, Inc. (the "2002 Incentive Plan"); however, options previously issued under the 2002 Incentive Plan remain outstanding and exercisable. Total share-based compensation expense in fiscal 2017, 2016, and 2015 was \$11.0 million (\$9.9 million from continuing operations and \$1.1 million from discontinued operations), \$10.9 million (\$10.6 million from continuing operations and \$0.3 million from discontinued operations), and \$8.2 million (\$8.0 million from continuing operations and \$0.2 million from discontinued operations), respectively.

Stock Option Activity

Stock options have been granted to non-employee directors, officers, and other key employees. Generally, options outstanding under the 2002 Incentive Plan and Amended and Restated 2009 Incentive Plan are exercisable at a price equal to the fair market value on the date of grant, vest over four years, and expire ten years after the date of grant. The estimated weighted-average fair value of the individual options granted during fiscal 2017, 2016, and 2015 was \$4.82, \$6.49, and \$8.40, respectively, on the date of the grants. The fair values of all options granted were determined using a Black-Scholes option-pricing model with the following weighted average assumptions for each fiscal year:

	2017	2016	2015	
Dividend yield	2.2	% 1.5	% 1.2	%
Volatility	32.9	% 33.4	% 36.6	%
Risk-free interest rate	1.3	% 1.4	% 1.7	%
Expected life	5.0 years	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. A reconciliation of the Company's stock option activity, including stock option activity with employees of the Company's discontinued operations, and related information for fiscal 2017 is as follows:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at February 27, 2016	2,546,228	\$ 21.81		
Granted	1,450,635	20.04		
Exercised	(178,480)	16.04		\$ 1,257,000
Forfeited and expired	(225,791)	22.22		

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Outstanding at February 25, 2017	3,592,592	\$ 21.35	7.4	\$1,719,000
Exercisable at February 25, 2017	1,816,854	\$ 21.14	6.4	\$1,694,000

Table of Contents

As of February 25, 2017, there was \$5.8 million of total unrecognized compensation cost, net of estimated forfeitures, related to nonvested options. That cost is expected to be recognized over a weighted average period of 1.6 years.

Intrinsic value for stock options is the difference between the current market value of the Company's stock and the option strike price. The total intrinsic value of options exercised during fiscal 2017, 2016, and 2015 was \$1.3 million, \$1.1 million, and \$6.7 million, respectively.

The following table summarizes information concerning outstanding and exercisable options at February 25, 2017:

Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
\$1.00 - \$10.00	135,833	2.6	\$ 6.08	135,833	\$ 6.08
\$10.01 - \$15.00	47,404	4.0	13.14	47,404	13.14
\$15.01 - \$20.00	720,910	8.0	18.58	397,302	19.22
\$20.01 - \$25.00	2,178,406	9.1	21.93	902,125	22.23
\$25.01 +	510,039	8.1	27.60	334,190	27.73
	3,592,592	8.4	\$ 21.35	1,816,854	\$ 21.14

The Company recorded compensation expense related to stock options of \$4.4 million, \$5.9 million, and \$3.9 million in fiscal 2017, 2016, and 2015, respectively.

Restricted Stock Activity

The Company has granted shares of the Company's stock to non-employee directors, officers, and other key employees that are subject to restrictions. The restricted stock granted to employees under the Amended and Restated 2009 Incentive Plan either vests upon the achievement of specified levels of net income or earnings per share growth over a three-year period or cliff-vest after a three-year period. For performance-based awards, should the net income or earnings per share growth 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. The Company recorded compensation expense related to restricted stock of \$6.5 million, \$4.9 million, and \$4.2 million in fiscal 2017, 2016, and 2015, respectively.

A reconciliation of the Company's restricted stock activity and related information for fiscal 2017 is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at February 27, 2016	712,617	\$ 23.22
Granted	479,781	19.64
Vested	(400,117)	22.06
Forfeited	(195,136)	22.87
Unvested at February 25, 2017	597,145	\$ 21.36

As of February 25, 2017, there was \$5.3 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 1.4 years. The total fair value of awards for which restrictions lapsed (upon which the stock vested) during fiscal 2017 was \$8.8 million.

Employee Stock Purchase Plan

The Company has an Employee Stock Purchase Plan ("ESPP"). Under the ESPP, participating employees are able to contribute up to 15% of their annual compensation to acquire shares of the Company's common stock at 85% of the market price on a specified date each offering period. The amount of shares purchased per calendar year per employee cannot have a fair market value in excess of \$25,000. There are 2,400,000 shares of common stock authorized for purchase under the ESPP, of which 37,000, 39,000, and 29,000 shares were purchased during fiscal 2017, 2016, and 2015, respectively. The Company recognizes compensation expense based on the 15% discount at purchase. The

Company recorded compensation expense related to the ESPP of \$0.1 million in each of fiscal 2017, 2016, and 2015.

Table of Contents

9. Earnings Per Share

The Company measured its diluted earnings per share utilizing the treasury method for fiscal 2017 and the two-class method for fiscal 2016 and 2015 as those measurements were determined to be more dilutive between the two available methods in each of those fiscal years.

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

	2017	2016	2015
Net income from continuing operations	\$35,156	\$28,922	\$89,099
Net income from continuing operations attributable to The Finish Line, Inc. attributable to participating securities	—	347	1,067
Net income from continuing operations attributable to The Finish Line, Inc. available to shareholders	\$35,156	\$28,575	\$88,032
Net loss from discontinued operations	\$(53,364)	\$(7,126)	\$(9,357)
Net loss attributable to redeemable noncontrolling interest of discontinued operations	—	(96)	(2,251)
Net loss from discontinued operations attributable to The Finish Line, Inc. attributable to participating securities	—	(84)	(85)
Net loss from discontinued operations attributable to The Finish Line, Inc. available to shareholders	\$(53,364)	\$(6,946)	\$(7,021)
Net (loss) income attributable to The Finish Line, Inc. available to shareholders	\$(18,208)	\$21,629	\$81,011
Basic earnings per share attributable to The Finish Line, Inc. shareholders:			
Weighted-average number of common shares outstanding	40,911	44,565	47,268
Basic earnings per share attributable to The Finish Line, Inc. shareholders:			
Continuing operations	\$0.86	\$0.64	\$1.86
Discontinued operations	(1.31)	(0.15)	(0.15)
Basic earnings per share attributable to The Finish Line, Inc. shareholders	\$(0.45)	\$0.49	\$1.71
Diluted earnings per share attributable to The Finish Line, Inc. shareholders:			
Weighted-average number of common shares outstanding	40,911	44,565	47,268
Dilutive effect of potential common shares(a)	456	222	390
Diluted weighted-average number of common shares outstanding	41,367	44,787	47,658
Diluted earnings per share attributable to The Finish Line, Inc. shareholders:			
Continuing operations	\$0.85	\$0.64	\$1.85
Discontinued operations	(1.29)	(0.16)	(0.15)
Diluted earnings per share attributable to The Finish Line, Inc. shareholders	\$(0.44)	\$0.48	\$1.70

The computation of diluted earnings per share attributable to The Finish Line, Inc. shareholders excludes options to (a) purchase approximately 3.0 million, 1.7 million, and 0.6 million shares of common stock in fiscal 2017, 2016, and 2015, respectively, because the impact of such options would have been antidilutive.

10. Common Stock

On July 21, 2011, the Company's Board of Directors authorized a share repurchase program to repurchase shares of the Company's common stock with subsequent amendments on March 26, 2015 and July 13, 2016 authorizing further share repurchases through December 31, 2019 (the "Share Repurchase Program").

Table of Contents

The Company repurchased 2.5 million shares of its common stock at an average price of \$21.11 per share for an aggregate amount of \$52.8 million in fiscal 2017. As of February 25, 2017, there were 4,791,936 shares remaining available to repurchase under the Share Repurchase Program.

As of February 25, 2017, the Company held 19,421,270 shares of its common stock as treasury shares at an average price of \$20.52 per share for an aggregate carrying amount of \$398.6 million. The Company's treasury shares may be issued upon the exercise of employee stock options, under the Employee Stock Purchase Plan ("ESPP"), in the form of restricted stock, or for other corporate purposes. The number of shares of common stock available for issuance of awards of restricted stock and other awards, or upon the exercise of options, is limited under the 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.

On January 11, 2017, the Company increased its quarterly cash dividend to \$0.11 per share from \$0.10 per share of the Company's common stock. The Company declared dividends of \$17.0 million, \$16.5 million, and \$15.7 million during fiscal 2017, 2016, and 2015, respectively. As of February 25, 2017 and February 27, 2016, dividends declared but not paid were \$4.5 million and \$4.3 million, respectively. Further declarations of dividends remain at the discretion of the Company's Board of Directors.

11. Impairment Charges and Store Closing Costs

The \$13.3 million in impairment charges and store closing costs recorded during fiscal 2017 were primarily the result of an \$11.5 million write-off of long-lived assets of underperforming stores and a \$1.0 million write-off of obsolete store fixtures and corporate assets. The asset impairment charges for the obsolete store technology assets and fixtures were calculated as the difference between the carrying amount of the impaired assets and their estimated future discounted cash flows. Additionally, the Company recorded \$0.8 million in store closing costs during fiscal 2017, which represents the non-cash write-off of fixtures and equipment upon a store/shop closing.

The \$43.6 million in impairment charges and store closing costs recorded during fiscal 2016 were primarily the result of a \$33.3 million write-off of technology assets related to enterprise-wide systems infrastructure, as the Company determined that the systems were no longer going to be used for their originally intended purpose and instead the Company will focus on smaller upgrades and enhancements to its core systems going forward, an \$8.4 million write-off of long-lived assets of underperforming stores, and a \$1.1 million write-off of obsolete store fixtures and corporate assets. 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 \$0.8 million in store closing costs during fiscal 2016.

The \$2.0 million in impairment charges and store closing costs recorded during fiscal 2015 were primarily the result of a \$0.2 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 the website was no longer going to be used for its originally intended purpose, a \$0.5 million write-off of long-lived assets of underperforming stores, and a \$0.3 million write-off of obsolete store fixtures. 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 \$1.0 million in store closing costs during fiscal 2015.

12. 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.

Table of Contents

13. Quarterly Financial Information (Unaudited)

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

The following tables set forth quarterly operating data of the Company, including such data as a percentage of net sales, for fiscal 2017 and 2016. This quarterly information is unaudited but, in management's opinion, reflects all adjustments, consisting only of normal recurring adjustments necessary for a fair presentation of the information for the periods presented.

	Quarter Ended							
	May 28, 2016		August 27, 2016		November 26, 2016		February 25, 2017	
	(Dollars in thousands, except per share data)							
Statement of Operations Data:								
Net sales	\$430,044	100.0 %	\$485,156	100.0 %	\$371,741	100.0 %	\$557,452	100.0 %
Cost of sales (including occupancy costs)	296,867	69.0	331,447	68.3	272,377	73.3	395,298	70.9
Gross profit	133,177	31.0	153,709	31.7	99,364	26.7	162,154	29.1
Selling, general, and administrative expenses	117,549	27.3	116,511	24.0	118,133	31.7	128,705	23.1
Impairment charges and store closing costs	—	—	182	—	—	—	13,129	2.4
Operating income (loss)	15,628	3.7	37,016	7.7	(18,769)	(5.0)	20,320	3.6
Interest (income) expense, net	(6)	—	32	—	152	0.1	101	—
Income (loss) from continuing operations before income taxes	15,634	3.7	36,984	7.7	(18,921)	(5.1)	20,219	3.6
Income tax expense (benefit)	5,546	1.3	13,627	2.8	(8,332)	(2.3)	7,919	1.4
Net income (loss) from continuing operations	10,088	2.4	23,357	4.9	(10,589)	(2.8)	12,300	2.2
Net loss from discontinued operations, net of tax	(462)	(0.1)	(1,282)	(0.3)	(29,849)	(8.1)	(21,771)	(3.9)
Net income (loss) attributable to The Finish Line, Inc.	\$9,626	2.3	\$22,075	4.6	\$(40,438)	(10.9)	\$(9,471)	(1.7)
Basic earnings (loss) per share attributable to The Finish Line, Inc. shareholders(a):								
Continuing operations	\$0.24		\$0.56		\$(0.26)		\$0.30	
Discontinued operations	(0.01)		(0.03)		(0.74)		(0.53)	
Basic earnings (loss) per share attributable to The Finish Line, Inc. shareholders(a)	\$0.23		\$0.53		\$(1.00)		\$(0.23)	
Diluted earnings (loss) per share attributable to The Finish Line, Inc. shareholders(a):								
Continuing operations	\$0.24		\$0.56		\$(0.26)		\$0.30	
Discontinued operations	(0.01)		(0.03)		(0.74)		(0.53)	
Diluted earnings (loss) per share attributable to The Finish Line, Inc. shareholders(a)	\$0.23		\$0.53		\$(1.00)		\$(0.23)	

Dividends declared per share	\$0.10	\$0.10	\$0.10	\$0.11
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(a) Earnings (loss) per share is computed independently for each of the quarters presented. Therefore, the sum of the quarterly amounts may not equal the total for the fiscal year.

Table of Contents

	Quarter Ended							
	May 30, 2015		August 29, 2015		November 28, 2015		February 27, 2016	
	(Dollars in thousands, except per share data)							
Statement of Operations Data:								
Net sales	\$419,398	100.0 %	\$458,713	100.0 %	\$361,025	100.0 %	\$559,845	100.0 %
Cost of sales (including occupancy costs)	288,283	68.7	307,846	67.1	277,986	77.0	368,845	65.9
Gross profit	131,115	31.3	150,867	32.9	83,039	23.0	191,000	34.1
Selling, general, and administrative expenses	108,076	25.8	109,449	23.9	115,716	32.1	136,594	24.4
Impairment charges and store closing costs	168	—	160	—	167	—	43,142	7.7
Operating income (loss)	22,871	5.5	41,258	9.0	(32,844)	(9.1)	11,264	2.0
Interest expense (income), net	2	—	(1)	—	3	—	61	—
Income (loss) from continuing operations before income taxes	22,869	5.5	41,259	9.0	(32,847)	(9.1)	11,203	2.0
Income tax expense (benefit)	8,800	2.1	15,707	3.4	(13,389)	(3.7)	2,444	0.4
Net income (loss) from continuing operations	14,069	3.4	25,552	5.6	(19,458)	(5.4)	8,759	1.6
Net (loss) income from discontinued operations, net of tax	(280)	(0.1)	350	0.1	(2,377)	(0.6)	(4,723)	(0.9)
Net income (loss) attributable to The Finish Line, Inc.	\$13,789	3.3	\$25,902	5.7	\$(21,835)	(6.0)	\$4,036	0.7
Basic earnings (loss) per share attributable to The Finish Line, Inc. shareholders(a):								
Continuing operations	\$0.31		\$0.56		\$(0.44)		\$0.20	
Discontinued operations	(0.01)		0.01		(0.05)		(0.11)	
Basic earnings (loss) per share attributable to The Finish Line, Inc. shareholders(a)	\$0.30		\$0.57		\$(0.49)		\$0.09	
Diluted earnings (loss) per share attributable to The Finish Line, Inc. shareholders(a):								
Continuing operations	\$0.30		\$0.56		\$(0.44)		\$0.20	
Discontinued operations	—		0.01		(0.05)		(0.11)	
Diluted earnings (loss) per share attributable to The Finish Line, Inc. shareholders(a)	\$0.30		\$0.57		\$(0.49)		\$0.09	
Dividends declared per share	\$0.09		\$0.09		\$0.09		\$0.10	

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

Table of Contents

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure
None.

Item 9A. Controls and Procedures

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

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

(c) Changes in Internal Control over Financial Reporting. There were no changes in the Company's internal control over financial reporting during the fourth quarter of fiscal 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

Item 9B. Other Information

None.

Table of Contents

PART III

Item 10. Directors, Executive Officers, and Corporate Governance

Except for information disclosed in Part I under the heading “Executive Officers of the Registrant,” the information required by this Item is incorporated by reference to the information contained under the captions “Management—Executive Officers and Directors,” “Management—Section 16(a) Beneficial Ownership Reporting Compliance,” and “Board of Directors, Committees, and Meetings—Meetings and Committees of the Board of Directors—The Audit Committee” in the Company’s Proxy Statement for its Annual Shareholders Meeting to be filed with the Securities and Exchange Commission within 120 days of February 25, 2017 (the “2017 Proxy Statement”), the Company’s most recent fiscal year-end. The Company has a Code of Ethics policy that applies to all officers, employees, and directors of the Company. The text of the Code of Ethics and other corporate governance documents are available on the Company’s website at www.finishline.com.

Item 11. Executive Compensation

The information required by this Item is incorporated herein by reference to the information contained under the caption “Executive Compensation” in the 2017 Proxy Statement.

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

The information required by this Item is incorporated herein by reference to the information contained under the caption “Security Ownership of Certain Beneficial Owners and Management” in the 2017 Proxy Statement.

Equity Compensation Plan Information

The following table provides information with respect to compensation plans under which equity securities of the Company are currently authorized for issuance to employees or non-employees (such as directors, consultants, advisors, vendors, customers, suppliers, or lenders), as of February 25, 2017:

Plan Category	(a) Number of shares to be issued upon exercise of outstanding options, warrants, and rights (1)	(b) Weighted average exercise price of outstanding options, warrants, and rights (2)	(c) Number of shares remaining available for future issuance under equity compensation plans (excluding shares reflected in column (a)) (2)
Equity compensation plans approved by shareholders	3,592,592	\$ 21.35	6,373,622
Equity compensation plans not approved by shareholders	—	—	—

These shares are subject to awards made or to be made under the Company’s Amended and Restated 2009 Incentive (1) Plan and Employee Stock Purchase Plan, and awards previously made and which remain outstanding under the 2002 Incentive Plan and the Non-Employee Director Stock Option Plan.

Includes the following shares which remain available for future issuance under the referenced plans as of (2) February 25, 2017: 4,499,802 shares under the Amended and Restated 2009 Incentive Plan and 1,873,820 shares under the Employee Stock Purchase Plan. Under the terms of the 2002 Incentive Plan, future grants are no longer permitted.

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

The information required by this Item is incorporated herein by reference to the information contained under the captions “Executive Compensation—Transactions With Related Persons” and “Board of Directors, Committees, and Meetings—Independence of Directors” in the 2017 Proxy Statement.

Item 14. Principal Accounting Fees and Services

The information required by this Item is incorporated herein by reference to the information contained under the captions “Audit Committee Report—Independent Auditor Fee Information” and “Audit Committee Report—Pre-Approval

Policies and Procedures” in the 2017 Proxy Statement.

62

Table of Contents

PART IV

Item 15. Exhibits, Financial Statement Schedules

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

<u>Report of Independent Registered Public Accounting Firm</u>	Page <u>36</u>
<u>Consolidated Balance Sheets as of February 25, 2017 and February 27, 2016</u>	<u>38</u>
<u>Consolidated Statements of Operations for the years ended February 25, 2017, February 27, 2016, and February 28, 2015</u>	<u>40</u>
<u>Consolidated Statements of Cash Flows for the years ended February 25, 2017, February 27, 2016, and February 28, 2015</u>	<u>41</u>
<u>Consolidated Statements of Changes in Shareholders' Equity for the years ended February 25, 2017, February 27, 2016, and February 28, 2015</u>	<u>42</u>
<u>Notes to Consolidated Financial Statements</u>	<u>43</u>

(b) Financial Statement Schedules

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

(c) Exhibits

Item 15. Form 10-K Summary

Not applicable.

Table of Contents

Exhibit
Number Description

- 2.1 Membership Interest Purchase Agreement, dated January 26, 2017, by and among Project Running Specialties, Inc., Project Running Specialties, LLC, and The Finish Line, Inc. (incorporated by reference to Exhibit 2.1 of the registrant's Current Report on Form 8-K filed on February 1, 2017).*
- 2.2 Amendment to Membership Interest Purchase Agreement dated February 24, 2017 (incorporated by reference to Exhibit 10.1 of the registrant's Current Report on Form 8-K filed on March 1, 2017).
- 2.3 Transition Services Agreement between The Running Specialty Group Acquisitions I, LLC and The Finish Line, Inc., The Finish Line USA, Inc., and The Finish Line Distribution, Inc., dated February 24, 2017 (incorporated by reference to Exhibit 10.2 of the registrant's Current Report on Form 8-K filed on March 1, 2017).
- 3.1 Restated Articles of Incorporation of The Finish Line, Inc., amended and restated as of July 23, 2009(incorporated by reference to Exhibit 3.1 of the registrant's Annual Report on Form 10-K filed on April 29, 2015).
- 3.2 Bylaws of The Finish Line, Inc., amended as of July 23, 2009 (incorporated by reference to Exhibit 3.2 of the registrant's Annual Report on Form 10-K filed on April 29, 2015).
- 4.1 2002 Stock Incentive Plan of The Finish Line, Inc. (as amended and restated July 21, 2005) (incorporated by reference to Exhibit 4.1 of the registrant's Annual Report on Form 10-K filed on April 29, 2013).**
- 4.2 Amendment No. 1 to the 2002 Stock Incentive Plan of The Finish Line, Inc. (as amended and restated July 21, 2005) (incorporated by reference to Exhibit 4.2 of the registrant's Annual Report on Form 10-K filed on April 29, 2013).**
- 4.3 Amendment No. 2 to the 2002 Stock Incentive Plan of The Finish Line, Inc. (as amended and restated July 21, 2005) (incorporated by reference to Exhibit 4.3 of the registrant's Annual Report on Form 10-K filed on April 29, 2013).**
- 4.4 Amendment No. 3 to the 2002 Stock Incentive Plan of The Finish Line, Inc. (as amended and restated July 21, 2005) (incorporated by reference to Exhibit 4.4 of the registrant's Annual Report on Form 10-K filed on April 29, 2013).**
- 4.5 The Finish Line, Inc. 2009 Incentive Plan Amended and Restated as of April 16, 2014 (incorporated by reference to Exhibit 4.3 of the registrant's Registration Statement on Form S-8 (Reg. No. 333-212858) filed on August 3, 2016).**
- 10.1 Form of Award Agreement for Employees and Employee Directors pursuant to the 2002 Stock Incentive Plan.**

Table of Contents

Exhibit
Number Description

- 10.2 Form of Award Agreement for Nonemployee Directors pursuant to the 2002 Stock Incentive Plan.**
- 10.3 Form of Non-Qualified Option Award Letter for Employees and Employee Directors pursuant to the 2002 Stock Incentive Plan.**
- 10.4 Form of Non-Qualified Option Award Letter for Nonemployee Directors pursuant to the 2002 Stock Incentive Plan.**
- 10.5 Form of Incentive Stock Award Letter pursuant to the 2002 Stock Incentive Plan.**
- 10.6 Form of The Finish Line, Inc. 2009 Incentive Plan Non-Qualified Stock Option Award Agreement (incorporated by reference to Exhibit 10.14 of the registrant's Annual Report on Form 10-K filed on April 29, 2015).**
- 10.7 Form of the Finish Line, Inc. 2009 Incentive Plan Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.15 of the registrant's Annual Report on Form 10-K filed on April 29, 2015).**
- 10.8 Form of the Finish Line, Inc. 2009 Incentive Plan Restricted Stock Award Agreement for Time Based Vesting (incorporated by reference to Exhibit 10.15 of the registrant's Annual Report on Form 10-K filed on April 26, 2016).**
- 10.9 Form of the Finish Line, Inc. 2009 Incentive Plan Restricted Stock Award Agreement for Performance Based Vesting (incorporated by reference to Exhibit 10.19 of the registrant's Annual Report on Form 10-K filed on April 26, 2016).**
- 10.10 Form of Indemnity Agreement between The Finish Line, Inc. and each of its Directors or Executive Officers (incorporated by reference to Exhibit 10.6 of the registrant's Annual Report on Form 10-K filed on April 29, 2015).**
- 10.11 The Finish Line, Inc. Non-Employee Director Stock Option Plan, as amended and restated (incorporated by reference to Exhibit 10.7 of the registrant's Annual Report on Form 10-K filed on April 29, 2015).**
- 10.12 The Finish Line, Inc. Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.8 of the registrant's Annual Report on Form 10-K filed on April 29, 2015).**
- 10.13 The Finish Line, Inc. Non-Qualified Deferred Compensation Plan (incorporated by reference to Exhibit 10.9 of the registrant's Annual Report on Form 10-K filed on April 29, 2013).**
- 10.14 Amendment No. 1 to The Finish Line, Inc. Non-Qualified Deferred Compensation Plan (incorporated by reference to Exhibit 10.10 of the registrant's Annual Report on Form 10-K filed on April 29, 2013).**
- 10.15 Employment Agreement of Samuel M. Sato, effective as of February 28, 2016 (incorporated by reference to Exhibit 99.1 of the registrant's Current Report on Form 8-K filed on January 11, 2016).**
- 10.16 Employment Agreement of Edward W. Wilhelm, dated as of March 30, 2009 (incorporated by reference to Exhibit 10.12 of the registrant's Annual Report on Form 10-K filed on April 29, 2014).**

- 10.17 Amendment No. 1 to the Amended and Restated Employment Agreement of Edward W. Wilhelm (incorporated by reference to Exhibit 10.13 of the registrant's Annual Report on Form 10-K filed on April 29, 2014).**
- 10.18 Employment Agreement of Melissa A. Greenwell, dated as of February 5, 2016 (incorporated by reference to Exhibit 99.1 of the registrant's Current Report on Form 8-K filed on February 5, 2016).**
- 10.19 Employment Agreement of Imran Jooma, dated as of February 9, 2015 (incorporated by reference to Exhibit 10.2 of the registrant's Quarterly Report on Form 10-Q filed on June 26, 2015).**
- 10.20 Retirement Agreement, effective February 28, 2016, by and between The Finish Line, Inc. and Glenn S. Lyon (incorporated by reference to Exhibit 99.2 of the registrant's Current Report on Form 8-K filed on January 11, 2016).**
- 10.21 Retirement Agreement, effective June 30, 2013, by and between The Finish Line, Inc. and Steven J. Schneider. (incorporated by reference to Exhibit 10.1 of the registrant's Quarterly Report on Form 10-Q filed on July 1, 2013).**
- 10.22 General Release and Covenant Not to Sue dated March 1, 2017 between Bill Kirkendall and The Finish Line, Inc. (incorporated by reference to Exhibit 99.1 of the registrant's Current Report on Form 8-K filed on March 3, 2017).**

Table of Contents

10.23 Second Amended and Restated Revolving Credit Facility Credit Agreement, dated as of November 30, 2016, by and among The Finish Line, Inc., The Finish Line USA, Inc., The Finish Line Distribution, Inc., Finish Line Transportation Co., Inc., and Spike's Holding, LLC as Borrowers, The Finish Line MA, Inc., as Guarantor, certain Lenders named therein, and PNC Bank, National Association, as Administrative Agent, Lead Arranger, and Sole Book Runner (incorporated by reference to Exhibit 99.1 of the registrant's Current Report on Form 8-K filed on December 6, 2016).**

10.24 Second Amended and Restated Continuing Agreement of Guaranty and Suretyship - Subsidiaries, dated as of November 30, 2016, by The Finish Line MA, Inc. (incorporated by reference to Exhibit 99.2 of the registrant's Current Report on Form 8-K filed on December 6, 2016).**

21 Subsidiaries of The Finish Line, Inc.

23 Consent of Independent Registered Public Accounting Firm.

31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act, as amended.

31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act, as amended.

32 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101 The following materials from the Company's Form 10-K for the year ended February 25, 2017, formatted in an XBRL Interactive Data File: (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Operations; (iii) Consolidated Statements of Cash Flows; (iv) Consolidated Statements of Changes in Shareholders' Equity; and (v) Notes to Consolidated Financial Statements, with detailed tagging of notes and financial statement schedules.

* The Company has omitted schedules and similar attachments to the subject agreement pursuant to Item 601 (b) of Regulation S-K. The Company will furnish a copy of the omitted schedules or similar attachments to the SEC upon request.

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

Table of Contents

SIGNATURES

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

THE FINISH LINE, INC.

Date: April 25, 2017 By: /S/ EDWARD W. WILHELM

Edward W. Wilhelm,
Executive Vice President,
Chief Financial Officer

Table of Contents

POWER OF ATTORNEY

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

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

Date: April 25, 2017 /s/ SAMUEL M. SATO

Samuel M. Sato,

Chief Executive Officer and Director

(Principal Executive Officer)

Date: April 25, 2017 /s/ EDWARD W. WILHELM

Edward W. Wilhelm,

Executive Vice President, Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

Date: April 25, 2017 /s/ GLENN S. LYON

Glenn S. Lyon, Chairman of the Board

Date: April 25, 2017 /s/ STEPHEN GOLDSMITH

Stephen Goldsmith, Director

Date: April 25, 2017 /s/ WILLIAM P. CARMICHAEL

William P. Carmichael, Director

Date: April 25, 2017 /s/ CATHERINE A. LANGHAM

Catherine A. Langham, Director

Date: April 25, 2017 /s/ DOLORES A. KUNDA

Dolores A. Kunda, Director

Date: April 25, 2017 /s/ NORMAN H. GURWITZ

Norman H. Gurwitz, Director

Date: April 25, 2017 /s/ RICHARD P. CRYSTAL

Richard P. Crystal, Director

Date: April 25, 2017 /s/ TORRENCE BOONE

Torrence Boone, Director

Table of Contents

Exhibit Index

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23	Consent of Independent Registered Public Accounting Firm.
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31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act, as amended.
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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**Management contract or compensatory plan, contract, or arrangement.