FINISH LINE INC /DE/
Form 10-Q
January 04, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

 X   QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE

ACT OF 1934

For the thirteen week period ended December 1, 2001

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934

For the transition period from __________________ to ___________________

Commission File number 0-20184

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

Delaware	35-1537210
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer identification number)

3308 North Mitthoeffer Road	Indianapolis,	Indiana	46235
(Address of principal executive offices)			(zip code)

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

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

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

Yes X   No ___

Shares of common stock outstanding at December 21, 2001:

Class A	19,779,588
Class B	4,362,442

PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE FINISH LINE, INC.

CONSOLIDATED BALANCE SHEETS
(In thousands)

	December 1, 2001 (unaudited)	March 3, 2001
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 30,406	$ 45,422
Marketable securities	5,500	6,513
Accounts receivable	6,332	3,476
Merchandise inventories	167,094	145,503
Income taxes recoverable	3,927	--
Other	11,064	7,233
Total current assets	224,323	208,147
PROPERTY AND EQUIPMENT:		
Land	315	315
Building	10,578	10,486
Leasehold improvements	96,789	91,657
Furniture, fixtures, and equipment	45,309	41,515
Construction in progress	1,736	2,849
	154,727	146,822
Less accumulated depreciation	62,889	52,348
	91,838	94,474
OTHER ASSETS:		
Deferred income taxes	7,603	6,247
Total assets	$323,764	$308,868

See accompanying notes.

THE FINISH LINE, INC.

CONSOLIDATED BALANCE SHEETS
(In thousands)

	December 1, 2001
	(unaudited)
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Accounts payable	$ 58,571
Employee compensation	5,568
Accrued property and sales tax	4,071
Deferred income taxes	6,214
Other liabilities and accrued expenses	7,817
Total current liabilities	82,241
Long-term deferred rent payments	8,324
STOCKHOLDERS' EQUITY:	
Preferred stock, $.01 par value; 1,000 shares authorized; none issued	--
Common stock, $.01 par value	
Class A:	
Shares authorized - 30,000	
Shares issued - (December 1, 2001 - 21,998; March 3, 2001 - 20,022)	
Shares outstanding - (December 1, 2001 - 19,754; March 3, 2001 - 18,181)	220
Class B:	
Shares authorized - 12,000	
Shares issued and outstanding - (December 1, 2001 - 4,362; March 3, 2001 - 6,268)	44
Additional paid-in capital	123,265
Retained earnings	127,712
Accumulated other comprehensive income	23
Treasury stock - (December 1, 2001 - 2,244; March 3, 2001 - 1,841)	(18,065)
Total stockholders' equity	233,199
Total liabilities and stockholders' equity	$323,764

See accompanying notes.

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

Thirteen Weeks Ended		Thirty Nin
December 1, 2001	November 25, 2000	December 1, 2001

Net sales	$142,266	$134,503	$499,867
Cost of sales (including occupancy expenses)	107,297	101,378	365,589
Gross profit	34,969	33,125	134,278
Selling, general, and administrative expenses	38,748	37,404	122,038
Repositioning charge reversal	(549)	--	(1,209)
Operating income (loss)	(3,230)	(4,279)	13,449
Interest income - net	387	328	1,325
Income (loss) before income taxes	(2,843)	(3,951)	14,774
Provision (benefit) for income taxes	(1,023)	(1,462)	5,319
Net income (loss)	$ (1,820)	$ (2,489)	$ 9,455
Basic net income (loss) per share	$ (.08)	$ (.10)	$ .39
Basic weighted average shares	24,173	24,479	24,339
Diluted net income (loss) per share	$ (.07)	$ (.10)	$ .38
Diluted weighted average shares	24,549	24,679	24,660

See accompanying notes.

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

	Thirty-Nine We
	December 1, 2001
OPERATING ACTIVITIES:	
Net Income	$ 9,455
Adjustments to reconcile net income to net cash provided by (used in) operating activities:	
Depreciation and amortization	12,178
Contribution of treasury stock to profit sharing plan	--
Repositioning charge reversal	(1,209)
Deferred income taxes	3,945
Gain on disposal of property and equipment	(7)
Changes in operating assets and liabilities:	
Accounts receivable	(2,856)
Merchandise inventories	(21,591)
Other current assets	(3,831)
Other assets	--
Accounts payable	5,121
Employee compensation and related payroll taxes	(1,072)
Accrued income taxes payable/recoverable	(6,849)
Other liabilities and accrued expenses	2,508
Deferred rent payments	710

Net cash provided by (used in) operating activities	(3,498)
INVESTING ACTIVITIES:	
Purchases of property and equipment	(10,515)
Proceeds from disposal of property and equipment	980
Proceeds from sale of investments	--
Proceeds from maturity of marketable securities	1,031
Net cash used in investing activities	(8,504)
FINANCING ACTIVITIES:	
Proceeds from short-term debt	--
Principal payments on short-term debt and long-term debt	--
Proceeds and tax benefits from exercise of stock options	517
Common stock repurchased	(3,531)
Net cash used in financing activities	(3,014)
Net increase (decrease) in cash and cash equivalents	(15,016)
Cash and cash equivalents at beginning of period	45,422
Cash and cash equivalents at end of period	$ 30,406

See accompanying notes.

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

1. Basis of Presentation

The accompanying unaudited financial statements of The Finish Line, Inc. and its wholly-owned subsidiary Spike's Holding, Inc. (collectively the "Company") have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation, have been included.

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

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

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

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

2. Repositioning Reserves

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

As of December 1, 2001 the Company has completed 11 of the 17 planned store closures. The Company has made payments of $309,000 against the lease obligation reserve in 2002 and recorded reductions of the lease obligation reserve of $1,209,000 as a change in estimate as a result of the successful negotiation of lease termination costs regarding five stores. The remaining $2,288,000 lease obligation reserve represents expected future lease obligations after store closure for the 6 remaining stores that are planned to be closed in fiscal 2002.

The reserve for inventory markdowns was reduced by a net of $11,551,000 for the thirty-nine weeks ended December 1, 2001 in connection with the Company's sale and liquidation of aged inventory below cost. This reduction to the reserve is net of an additional $502,000 charge (recorded in the 1st quarter ended June 2, 2001) to cost of sales to record additional markdowns on inventory to reflect it at its net realizable value.

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ITEM 2.

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

Results of Operations

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

	Thirteen Weeks Ended		Thirty - Weeks En
	Dec. 1, 2001	Nov. 25, 2000	Dec. 1, 2001
Income Statement Data: (Unaudited)			
Net sales	100.0%	100.0%	100.0%
Cost of sales (including occupancy costs)	75.4	75.4	73.1
Gross profit	24.6	24.6	26.9
Selling, general and administrative expenses	27.3	27.8	24.4
Repositioning charge reversal	(.4)	--	(.2)

Operating income (loss)	(2.3)	(3.2)	2.7
Interest income - net	.3	.2	.3
Income (loss) before income taxes	(2.0)	(3.0)	3.0
Provision (benefit) for income taxes	(.7)	(1.1)	1.1
Net income (loss)	(1.3)%	(1.9)%	1.9%

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Thirteen Weeks Ended December 1, 2001 Compared to Thirteen Weeks Ended November 25, 2000

Net sales increased 5.8% to $142.3 million for the thirteen weeks ended December 1, 2001 from $134.5 million for the thirteen weeks ended November 25, 2000. This increase in net sales was primarily attributable to net sales from new stores and a comparable store sales increase. As of December 1, 2001, the number of stores in operation increased 2.9% to 454 from 441 at November 25, 2000. During the thirteen weeks ended December 1, 2001, the Company's comparable store sales increased 8.0% compared to the same period in the prior year. Comparable footwear net sales for the thirteen weeks ended December 1, 2001 increased approximately 11.7% versus the thirteen weeks ended November 25, 2000. Comparable activewear and accessories net sales decreased approximately 4.6% for the comparable period. Activewear and accessories continue to be negatively effected by the transition to new merchandising strategies undertaken by the new apparel buying team. Net sales per square foot increased to $53 from $52 for the same thirteen week period of the prior year.

Gross profit for the thirteen weeks ended December 1, 2001 was $35.0 million, an increase of $1.8 million over the thirteen weeks ended November 25, 2000. Gross profit was 24.6% of net sales for both comparable periods. For the thirteen weeks ended December 1, 2001, margin for product sold decreased .6% which was offset by a .6% decrease in occupancy costs as a percentage of net sales.

Selling, general and administrative expenses increased $1.3 million (3.6%) to $38.7 million (27.3% of net sales) for the thirteen weeks ended December 1, 2001 from $37.4 million (27.8% of net sales) for the thirteen weeks ended November 25, 2000. This dollar increase was primarily attributable to the operating costs related to operating 13 additional stores at December 1, 2001 versus November 25, 2000. The decrease as a percentage of net sales is primarily attributable to controls over store payroll and supplies along with leverage created from the 8% comparable store gain for the quarter ended December 1, 2001.

In connection with the repositioning plan the Company established a reserve for future lease payments for store closures of $3.8 million which was included in accrued expenses at March 3, 2001. The accrued expense was reduced $575,000 in the thirteen weeks ended December 1, 2001 which represented payments of $26,000 and a decrease in the expected future lease store closure obligation of $549,000, which was taken back into income as a change in estimate. The reserve is reviewed periodically to determine its adequacy.

Net interest income was $387,000 (.3% of net sales) for the thirteen weeks ended December 1, 2001, compared to net interest income of $328,000 (.2% of net sales) for the thirteen weeks ended November 25, 2000, an increase of $59,000. This increase was the result of increased invested cash balances for the thirteen weeks ended December 1, 2001 compared to the same period of the prior year.

The Company had a benefit for income taxes of $1.0 million for the thirteen weeks ended December 1, 2001, as compared to a benefit for income taxes of $1.5 million for the thirteen weeks ended November 25, 2000. The decrease is due to the reduced level of loss before income taxes for the thirteen weeks ended December 1, 2001, along with an decrease in the effective tax rate to 36.0% for the thirteen weeks ended December 1, 2001 from 37.0% for the thirteen weeks ended November 25, 2000.

Net loss decreased 26.9% to $1.8 million for the thirteen weeks ended December 1, 2001 compared to $2.5 million for the thirteen weeks ended November 25, 2000. Diluted net loss per share was $.07 for the thirteen weeks ended December 1, 2001 compared to diluted net loss per share of $.10 for the thirteen weeks ended November 25, 2000. Diluted weighted average shares outstanding were 24,549,000 and 24,679,000 respectively, for the thirteen weeks ended December 1, 2001 and November 25, 2000.

Thirty Nine Weeks Ended 12/01/01 Compared to Thirty Nine Weeks Ended 11/25/00

Net sales increased 6.0% to $499.9 million for the thirty-nine weeks ended December 1, 2001 from $471.7 million for the thirty-nine weeks ended November 25, 2000. Of this increase, $11.1 million was attributable to a 2.9% increase in the number of stores open during the period from 441 at November 25, 2000 to 454 at December 1, 2001. The balance of the increase was attributable to a $13.2 million increase in net sales from the existing stores open only part of the first thirty-nine weeks of last year along with a comparable store net sales increase of 3.0% for the thirty-nine weeks ended December 1, 2001. Comparable footwear net sales for the thirty-nine weeks ended December 1, 2001, increased approximately 6.0%. Comparable activewear and accessories net sales decreased approximately 9.7% for the comparable period. Activewear and accessories continue to be negatively effected by the transition to new merchandise strategies undertaken by the new apparel buying team. Net sales per square foot increased to $188 from $186 for the same period of the prior year.

Gross profit for the thirty-nine weeks ended December 1, 2001 was $134.3 million, an increase of $7.3 million over the thirty-nine weeks ended November 25, 2000. Gross profit was 26.9% of net sales for both comparable periods. For the thirty-nine weeks ended December 1, 2001 product margin increased .1% which was offset by a .1% increase in occupancy costs as a percentage of net sales.

Selling, general and administrative expenses increased $7.6 million (6.6%) to $122.0 million (24.4% of net sales) for the thirty-nine weeks ended December 1, 2001 from $114.5 million (24.3% of net sales) for the thirty nine weeks ended November 25, 2000. This dollar increase was primarily attributable to the operating costs related to operating 13 additional stores at December 1, 2001 versus November 25, 2000.

In connection with the repositioning plan the Company established a reserve for future lease payments for store closures of $3.8 million which was included in accrued expenses at March 3, 2001. The accrued expense was reduced $1.5 million in the thirty-nine weeks ended December 1, 2001 which represented payments of $309,000 and a decrease in the expected future lease store closure obligation of $1.2 million, which was taken back into income as a change in estimate. The reserve is reviewed periodically to determine its adequacy.

Net interest income was $1.3 million (.3% of net sales) for the thirty-nine weeks ended December 1, 2001, compared to net interest income of $720,000 (.2%

of net sales) for the thirty-nine weeks ended November 25, 2000, an increase of $605,000. This increase was primarily the result of increased invested cash balances due to the Company's progress with the liquidation of aged inventory.

The Company's provision for federal and state income taxes was $5.3 million for the thirty-nine weeks ended December 1, 2001 compared to $4.9 million for the thirty-nine weeks ended November 25, 2000. The provision was effected by the increased level in income before income taxes for the thirty-nine weeks ended December 1, 2001, partially offset by a decrease in the effective tax rate to 36.0% for the thirty-nine weeks ended December 1, 2001 from 37.0% for the thirty-nine weeks ended November 25, 2000.

Diluted net income per share increased 11.8% to $.38 for the thirty-nine weeks ended December 1, 2001 compared to diluted net income per share of $.34 for the thirty-nine weeks ended November 25, 2000. Diluted weighted average shares outstanding were 24,660,000 and 24,682,000 respectively for the periods ended December 1, 2001 and November 25, 2000.

Liquidity and Capital Resources

The Company had a net use of cash of $3.5 million from its operating activities during the thirty-nine weeks ended December 1, 2001 as compared to providing cash from its operating activities of $12.9 million during the thirty-nine weeks ended November 25, 2000.

The Company had a net use of cash from its investing activities of $8.5 million and $9.1 million for the thirty-nine week periods ended December 1, 2001 and November 25, 2000, respectively. Of the $8.5 million used in fiscal 2002, $10.5 million was used for new store construction and remodeling of existing stores, which was partially offset by $1.0 million in net maturities and proceeds from marketable securities.

At December 1, 2001 the Company had cash equivalents of $30.4 million, marketable securities of $5.5 million and no interest bearing debt. Cash equivalents are primarily invested in taxable instruments with maturities of one to twenty-eight days. Marketable securities range in maturity from 90 days to four years from date of purchase and are primarily invested in tax exempt municipal obligations. Marketable securities are classified as available-for-sale and are available to support current operations.

The Company had working capital of $142.1 million at December 1, 2001, an increase of $8.5 million from the working capital of $133.6 million at March 3, 2001.

Merchandise inventories were $167.1 million at December 1, 2001 compared to $145.5 million at March 3, 2001. On a per square foot basis, merchandise inventories at December 1, 2001 decreased approximately 7.4% compared to November 25, 2000. Although merchandise inventories as of December 1, 2001 were reduced on a per square foot basis, management believes levels are adequate primarily due to less aged inventory being on hand due to the execution of the Company's repositioning plan.

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

ITEM 1: Legal Proceedings

None.

ITEM 2: Changes in Securities

None.

ITEM 3: Defaults Upon Senior Securities

None.

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

None.

ITEM 5: Other Information

None.

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

(a) Exhibits

None

(b) Reports on Form 8-K

None.

SIGNATURES

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

THE FINISH LINE, INC.

Date: January 3, 2002

By: /s/ Kevin S. Wampler

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