

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 27, 2010

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
(State of Incorporation)

35-1537210
(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)

Class A Common Stock, \$.01 par value

(Name of each exchange on which registered)

The NASDAQ Stock Market LLC

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 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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Securities Exchange Act of 1934.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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 stock held by non-affiliates of the Registrant as of August 28, 2009, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$449,411,000, which was based on the last sale price reported for such date by NASDAQ. The number of shares of the Registrant's Common Stock outstanding on April 16, 2010 was:

Class A Common Stock: 52,187,469

Class B Common Stock: 2,173,464

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement (to be filed within 120 days after February 27, 2010) for the Annual Meeting of Shareholders to be held on July 22, 2010 (hereinafter referred to as the "2010 Proxy Statement") are incorporated into Part III.

PART I

Forward-Looking Statements

This Annual Report on Form 10-K and the documents incorporated by reference contain statements, which constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Except for the historical information contained herein, the matters discussed in this Form 10-K and the documents incorporated by reference are forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by such forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to: general economic conditions and adverse factors impacting the retail footwear industry; depressed demand in the housing market; changing consumer preferences; the inability of The Finish Line, Inc. and its consolidated subsidiaries (collectively, the “Company”) to successfully market its footwear, apparel, accessories and other merchandise; price, product and competition from other retailers (including internet and direct manufacturer sales); fluctuations in oil prices causing changes in gasoline and energy prices, resulting in changes in consumer spending and utility and product costs; the unavailability of products; the inability to locate and obtain acceptable lease terms for the Company’s stores; the loss of key employees; management of strategic growth initiatives; litigation and the other risks detailed in the Company’s Securities and Exchange Commission filings. In this Annual Report on Form 10-K, words such as “anticipates,” “believes,” “expects,” “will continue,” “future,” “intends,” “plans,” “estimates,” “projects,” “budgets,” “may,” “could” and similar expressions identify forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to release publicly the results of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Item 1—Business

General

Throughout this Annual Report on Form 10-K, the fiscal years ended February 27, 2010, February 28, 2009 and March 1, 2008 are referred to as fiscal 2010, 2009 and 2008, respectively.

The Finish Line, Inc. together with its subsidiaries (collectively the “Company”), is one of the nation’s largest mall-based specialty retailers.

Finish Line. Finish Line is a premium athletic footwear store and one of the largest mall-based specialty retailers. As of April 16, 2010, the Company operated 667 Finish Line stores averaging approximately 5,400 square feet in 47 states. A Finish Line store generally carries a large selection of men’s, women’s and kids’s performance and athletic casual shoes, as well as an assortment of apparel and accessories. Brand names offered by Finish Line include Nike, Brand Jordan, Puma, adidas, Under Armour, Sketchers, Asics, Converse, Lacoste, New Balance, Reebok, North Face and many others. Finish Line’s goal is to offer the most relevant products from the best brands in an exciting and entertaining retail environment by continually updating store designs.

Man Alive. The Company operated Man Alive stores, which was a street fashion retailer offering men’s and women’s name brand fashions from the industry’s leading designers, until July 4, 2009. On June 21, 2009, the Company entered into a definitive asset purchase agreement with Man Alive Acquisitions, LLC (“the Buyer”), under which the Buyer assumed certain assets and liabilities of Man Alive, effective July 4, 2009.

Paiva. The Company operated Paiva stores, which targeted the active woman, for a portion of fiscal 2008 and 2007. On August 27, 2007, the Board of Directors of the Company approved management’s recommendation to proceed with the closure of all 15 Paiva stores as a thorough assessment and analysis revealed the concept was not demonstrating the potential necessary to deliver an acceptable long-term return on investment.

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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 a leading specialty retailer in the markets it serves. To achieve this, the Company has developed the following elements to its business strategy:

Emphasis on Customer Service and Convenience. The Company is committed to providing a premium shopping experience that is rewarding and enjoyable, and seeks to achieve this objective by providing convenient mall-based locations with highly functional store designs, offering competitive prices on brand name products, maintaining optimal in-stock levels of merchandise and employing knowledgeable and courteous sales associates.

Inventory Management. The Company stresses effective replenishment and distribution to each store. The Company's advanced information and distribution systems enable it to track inventory in each store by stockkeeping unit (SKU) on a daily basis, giving the Company flexibility to merchandise its products effectively. Also, store associates are able to use the WAN and perpetual inventory system to locate and sell merchandise that can then be fulfilled from another store. In addition, these systems allow the Company to respond promptly to changing customer preferences and to maintain optimal inventory levels in each store. The Company's inventory management system features automatic replenishment driven by point-of-sale (POS) data capture and a highly automated distribution center, which enables the Company to ship merchandise to each store every third day.

Product Diversity; Broad Demographic Appeal. The Company stocks its stores with a combination of the leading and newest brand name merchandise, including in-line offerings and unique products manufactured exclusively for the Company. Product diversity, in combination with the Company's store formats and commitment to customer service, is intended to attract a broad demographic cross-section of customers. The Company is focused on premium product, being the best in class, trend right, and the customer's first choice. The Company strives to offer the most relevant brands and best items, not necessarily the most expensive.

Brand Strategies

Finish Line Store Strategy. Since the Company's initial public offering in June 1992, Finish Line has expanded from 104 stores to 667 stores at April 16, 2010. The Company opened five new Finish Line stores and closed 28 stores in fiscal 2010. Total square footage decreased 4.2% in fiscal 2010 due to closings and downsizes offset partially by an increase from new stores. The five new stores in fiscal 2010 averaged approximately 4,000 square feet.

For the year ending February 26, 2011 ("fiscal 2011"), the Company intends to open approximately 8-10 new Finish Line stores and close 20-30 stores. The Company expects Finish Line's square footage to decrease approximately 2-3% due to more store closings anticipated than new stores. The actual closings in fiscal 2011 will depend on the outcome of landlord negotiations on an individual store by store basis. The new Finish Line stores in fiscal 2011 will consist of stores averaging approximately 4,300 square feet.

Commitment to Continually Strengthen Infrastructure. Over the last several years, the Company has made a number of strategic infrastructure investments, including enhancements to its management, payroll, store operations, distribution and information systems. The Company has also invested in material handling equipment that includes a high speed shipping sorter and a tilt-tray sortation system. This equipment enables the Company to process merchandise through the distribution center in a more efficient and accurate manner. This equipment has increased the Company's throughput capacity and allows us to increase our in-stock position at the stores.

The Company committed significant resources over the past several years to make the necessary changes to the Company's system infrastructure to accommodate multiple store formats. The Company has established a

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system infrastructure that is now capable of handling other potential acquisitions or new concepts that may arise in the future.

In fiscal 2011, the Company will continue to invest capital to enhance its merchandising and allocation systems, improve technology in information systems, along with upgrades to its e-commerce site.

Merchandise

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

Category	Year Ended					
	February 27, 2010		February 28, 2009		March 1, 2008	
	(in thousands)					
Footwear	\$1,005,166	86%	\$1,023,009	86%	\$1,001,947	83%
Softgoods	167,249	14%	171,648	14%	198,916	17%
Total	<u>\$1,172,415</u>	<u>100%</u>	<u>\$1,194,657</u>	<u>100%</u>	<u>\$1,200,863</u>	<u>100%</u>

All merchandising decisions, including merchandise mix, pricing, promotions and markdowns, are made at the Company's corporate headquarters. The store manager and district manager, along with management at the Company's headquarters, review the merchandise mix to adapt to permanent or temporary changes or trends in the marketplace.

Footwear

Finish Line's distinctive shoe walls are stocked with the latest in performance, athletic casual and seasonal footwear that the industry has to offer, including Nike, Brand Jordan, Skechers, adidas, Puma, Under Armour, Reebok, New Balance, Timberland, Asics, Converse, Polo, Lacoste and many others. To make shopping easier for customers, footwear is categorized into sections including: running, basketball, athletic casual, fitness and seasonal. Most categories are available in men's, women's and kid's styles.

Softgoods

Many of the same companies that supply Finish Line with quality footwear also supply softgoods, including products made by Brand Jordan, Nike, adidas, Under Armour and North Face. Additional suppliers include New Era and Oakley along with many others. Categories of softgoods consist of tops, pants, shorts, outer wear, running wear, fleece, fitness wear and sport-casual wear. In addition, the Company carries licensed apparel, socks, athletic bags, backpacks, sunglasses, watches and shoe-care products.

Finish Line has its own private label, which focuses on core basics such as t-shirts and shorts.

The Company also works closely with the branded apparel vendors to continue developing new exclusive product offerings.

Direct-to-Consumer

The Company continues its focus on increasing the direct-to-consumer business and enhancing a cross-channel customer experience in-line with our strategic direction. The Company continues to redesign and update its e-commerce site to enhance the quality and functionality of the site. During fiscal 2010, the Company

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established a dedicated team to focus exclusively on its growing e-commerce channel. The new team united the Finish Line e-commerce advertising, design and content team, which was based in the marketing department, with the technology and operations team that was formerly part of the information systems group. In addition, the Company has developed a mobile commerce site and is expanding its presence on social media to stay in-step with the evolving lifestyles of core consumers. Finishline.com is the Company's most visible store with approximately 125,000 visitors per day.

Marketing

The Company attempts to reach its target audience by using a multifaceted approach to marketing and advertising on national, regional and local levels. The Company utilizes its store windows, direct mail, e-mail, viral media, outdoor and the Internet in its marketing efforts.

The Company also takes advantage of 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. Total advertising expense was 1.4% of net sales after deducting co-op reimbursements in fiscal 2010 compared to 1.5% in fiscal 2009. These percentages fluctuate substantially during the different consumer buying seasons. The Company also believes that it benefits from the multi-million dollar advertising campaigns of its key suppliers, such as Nike and adidas.

The Company also uses in-store contests, promotions and event sponsorships, as well as a comprehensive public relations effort, to further market the Company.

The Company also has a customer loyalty program called "Winners Circle". Customers earn a \$20 reward certificate every time they spend \$200 at Finish Line in twelve months, in addition to receiving special member offers and discounts on footwear and apparel. The Company maintains a database with the Winners Circle information that it uses to communicate to customers regarding key initiatives and promotions as well as to mail members other pertinent information. The Company continues to put an emphasis on growing the membership base of the Winners Circle program, which increased 24% in fiscal 2010 and improving the marketing effectiveness of the Winners Circle program to drive sales.

Purchasing and Distribution

A footwear and softgoods buying department performs Finish Line's merchandise purchasing. These departments consist of vice-presidents and divisional merchandise managers, multiple buyers and associate buyers. These centralized merchandising departments are under the direction of an Executive Vice President-Chief Merchandising Officer. The buying department is supported by a planning and merchandising department.

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 155 suppliers and manufacturers of athletic and fashion products, the largest of which (Nike) accounted for approximately 65% and 64% of total purchases in fiscal 2010 and 2009, respectively. The Company purchased approximately 82% of total merchandise in fiscal 2010 and 80% in fiscal 2009 from its five largest suppliers. The Company and its vendors use EDI technology to streamline purchasing and distribution operations.

The Company utilizes warehouse management computer software for distribution center processing that features RF technology. This software was modified to interface with the high speed shipping sorter and tilt-tray sortation system. This system has helped improve productivity and accuracy as well as reduce the time it takes to send merchandise to stores. The Company believes this innovative technology will continue to improve its operations as well as allow for real-time tracking of inventory within the distribution center and in transit to the stores.

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

Management Information System

The Company has a computerized management information system, which includes a local area network of computers at corporate headquarters used by management to support decision-making along with PC-based POS computers at the stores. Store computers are connected via Multiprotocol Label Switching to computers at corporate headquarters. A perpetual inventory system permits corporate management to review daily each store's inventory by department, class and SKU. This system includes an automated replenishment system that allows the Company to replace faster-selling items more quickly. Store associates are able to use the WAN and perpetual inventory system to locate and sell merchandise that can then be fulfilled from another store. Other functions in the system include accounting, distribution, inventory tracking and control.

The Company has also made significant investments in its Human Capital Management systems over the past several years by purchasing and implementing a new HR and Payroll system for processing efficiencies; a new Time, Labor and Scheduling system for better store labor management and new Performance Management software applications to assist the corporate office with talent management, recruiting and staff evaluations.

Store Operations

The Company's Corporate Vice Presidents, Regional Vice Presidents and district managers visit the stores regularly to review the implementation of Company plans and policies, monitor operations, and review inventories and the presentation of merchandise. Accounting and general financial functions for the stores are conducted at corporate headquarters. Each store has a store manager or co-managers that are responsible for supervision and overall operations, one or more assistant managers and additional full and part-time sales associates.

Regional, district and store managers receive a fixed salary (except store managers in California) and are eligible for bonuses, based primarily on sales, payroll and shrinkage performance goals of the stores for which they are responsible. All store managers in California, assistant store managers and sales associates are paid on an hourly basis.

Real Estate

As of April 16, 2010, the Company operated 667 stores averaging approximately 5,400 square feet in 47 states. The Company's stores are primarily located in enclosed shopping malls. The typical Finish Line store format has a sales floor, which includes a try-on area, and a display area where each style of footwear carried in the store is displayed by category (e.g., running, basketball, athletic casual), and adjacent stock room where the footwear inventory is maintained. Sales floors in Finish Line stores represent approximately 65% to 75% of the total space.

The Company believes that its ability to obtain attractive, high traffic store locations, such as enclosed malls, and maintaining and or improving productivity in its existing store base are critical elements of its business and a key factor in its future growth and profitability. In determining new store locations, management evaluates market areas, in-mall locations, "anchor" stores, consumer traffic, mall sales per square foot, competition and occupancy, construction and other costs associated with opening a store.

The Company leases all of its stores. Initial lease terms of the stores are generally ten years in duration without renewal options, although some of the stores are subject to leases for five years with one or more renewal

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options. The leases generally provide for a fixed minimum rental plus a percentage of sales in excess of a specified amount and contain a clause (kick-out), which allows the Company to terminate the lease if specific sales thresholds are not achieved. These kick-outs generally apply 3-5 years into the initial lease term. As of April 16, 2010, the Company has approximately 30% of its store base that will be up for either renewal or kick-out over the next 12 months. To date, the Company has been successful in improving the productivity of its existing store base that allows a majority of the stores to remain open in these situations.

The Company estimates its cash requirement to open a new Finish Line store (averaging 4,000 – 5,000 square feet) to be approximately \$700,000. This requirement includes approximately \$500,000 for fixtures, equipment, leasehold improvements and pre-opening expenses and approximately \$300,000 (\$200,000 net of payables) in new store inventory.

Competition

Finish Line's business is highly competitive. Many of the products Finish Line sells are 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 internet e-tailers. Some of Finish Line's primary competitors are large national and/or regional chains that have substantially greater financial and other resources than the Company. Among Finish Line's competition are stores that are owned by major suppliers to the Company. To a lesser extent, Finish Line competes with local sporting goods and athletic specialty stores. The majority of Finish Line's stores are located in enclosed malls or shopping centers in which one or more competitors also operate. Typically, the leases that Finish Line enters into do not restrict the opening of stores by competitors.

Finish Line attempts to differentiate itself from its competition by operating more attractive, well-stocked stores in high retail traffic areas, with competitive prices and knowledgeable and courteous customer service. Finish Line attempts to keep its prices competitive with athletic specialty and sporting goods stores in each trade area, including competitors that are not necessarily located inside the mall. Finish Line believes it accomplishes this by effectively assorting its stores 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 late summer (mid July through early September) and holiday (Thanksgiving through Christmas) periods. During the fiscal years ended February 27, 2010 and February 28, 2009, these periods accounted for approximately 33% and 32% of the Company's annual sales, respectively.

Employees

As of February 27, 2010, the Company employed approximately 11,100 persons, 3,100 of whom were full-time and 8,000 of whom were part-time. Of this total, 604 were employed at the Company's Indianapolis, Indiana corporate headquarters and distribution center and 48 were employed as regional vice presidents and district 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 generally considered good.

Retirement Plan

In fiscal 2010, the Company contributed cash in the amount of \$527,000 (net of forfeitures) to the Company's Profit Sharing Plan.

The Company's Profit Sharing Plan also includes a 401(k) feature whereby the Company matches 50 percent of employee contributions to the plan up to six percent of the employee's wages. The Company contributed matching funds of approximately \$1,757,000 in fiscal 2010 and \$1,742,000 in fiscal 2009.

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Trademarks

The Company has registered in the United States Patent and Trademark Office several trademarks relating to its business. The Company believes its trademark and service mark registrations are valid, and it intends to be vigilant with regard to infringing or diluting uses by other parties, and to enforce vigorously its rights in its trademarks and service marks.

Available Information

The Company's Internet address is www.finishline.com. The Company makes available free of charge through its Internet 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 amended, 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 is available on its Investor Relations page under "Our Company."

Item 1A. Risk Factors

The current economic and financial conditions have caused and may continue to cause a decline in consumer spending and may adversely affect the Company's business, operations, liquidity, financial results and stock price.

Our operating results are affected by the relative condition of the U.S. economy. Our business and financial performance may be adversely affected by current 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, we may experience difficulties in operating and growing our operation to react to economic pressures in the U.S.

As a business that depends on consumer discretionary spending, our customers over the past two years have and may continue to reduce their 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 and 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 our business. Promotional activities and decreased demand for consumer products could affect profitability and margins. The customer traffic is difficult to forecast and mitigate. As a consequence, our sales, operating and financial results for a particular period are difficult to predict, and, therefore, it is difficult to forecast results to be expected in future periods. Any of the foregoing could have a material adverse effect on our business, results of operations, and financial condition and could adversely affect our stock price.

Additionally, many of the effects and consequences of the U.S. and global financial and economic conditions could potentially have a material adverse effect on the Company's liquidity and capital resources, including our ability to raise additional capital if needed, and the ability of banks to honor draws on our credit facility, or could otherwise negatively affect the Company's business and financial results. Although we normally generate funds from our operations to pay our operating expenses and fund our capital expenditures, our 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, and 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.

The 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 our supply chain. It may cause suppliers to reduce their offerings of customer

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incentives and vendor allowances, cooperative marketing expenditures and product promotions. The current market instability makes it difficult for us and our suppliers to accurately forecast future product demand trends, which could cause us to carry too much or too little merchandise in various product categories. The current financial and economic conditions may also adversely affect our landlords and real estate developers of retail space, which may limit the availability of attractive leased store locations. The current conditions may also adversely affect our product liquidation efforts.

Our business faces a great deal of competitive pressure.

The retail business is highly competitive. We compete for customers, associates, locations, merchandise, services and other important aspects of our business with many other local, regional, national and branded vendor operated retailers. Those competitors, some of whom have a greater market presence than us, include traditional store-based retailers, Internet businesses and other forms of retail commerce. Unanticipated changes in the pricing and other practices of those competitors may adversely affect our performance.

Our business is dependent on consumer preferences and fashion trends.

The athletic footwear and softgood industry is subject to changing fashion trends and customer preferences. We cannot guarantee that our merchandise selection will accurately reflect customer preferences when it is offered for sale or that we will be able to identify and respond quickly to fashion changes, particularly given the long lead times for ordering much of our merchandise from vendors. For example, we order athletic footwear four to six months prior to delivery to stores. If we fail to anticipate accurately either the market for the merchandise in the stores or customers' purchasing habits, we may be forced to rely on markdowns or promotional sales to dispose of excess, slow moving inventory, which may adversely affect our performance.

Various risks associated with Internet sales may adversely affect our business.

We sell merchandise over the Internet through our website, www.finishline.com. Although our Internet operations encompass only a minor portion of our total sales, we anticipate that the percentage will continue to grow and thus the risks associated with these operations could have an impact on our overall operations. Our Internet operations are subject to numerous risks, including unanticipated operating problems, reliance on third party computer hardware and software providers, system failures and the need to invest in additional computer systems. Our Internet operations also involve other risks that could have an impact on our results of operations including hiring, retention and training of personnel to conduct our Internet operations, diversion of sales from our stores, rapid technological change, liability for online content, credit card fraud, risks related to the failure of the computer systems that operate the website and its related support systems, including computer viruses, telecommunication failures and electronic break-ins and similar disruptions. There can be no assurance that our Internet operations will continue to achieve sales and profitability growth or even remain at their current level.

Our operations are dependent on a single distribution center, and the loss of, or disruption in, our distribution center and other factors affecting the distribution of merchandise, could have a material adverse effect on our business and operations.

The distribution functions for all of our stores and Internet sales are handled from a single facility in Indianapolis, Indiana. Any significant interruption in the operation of the distribution facility due to natural disasters, accidents, system failures or other unforeseen causes could delay or impair our ability to distribute merchandise to our stores and/or fulfill Internet orders, which could cause sales to decline.

We depend upon third party carriers for shipment of a significant amount of merchandise. An interruption in service by these third party carriers for any reason could cause temporary disruptions in our business, a loss of sales and profits, and other material adverse effects.

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Our freight cost is impacted by changes in fuel prices through surcharges. Fuel prices and surcharges affect freight costs both on inbound freight from suppliers to our distribution center as well as outbound freight from our distribution center to our stores. Increases in fuel prices and surcharges and other factors may increase freight costs.

We may experience fluctuations in our results of operations due to seasonality of our business.

Our business is subject to seasonal influences, with a major portion of sales and income historically realized during the second and fourth quarter of the fiscal year, which includes the back-to-school and holiday seasons, respectively. This seasonality causes our operating results to vary considerably from quarter to quarter and could materially and adversely affect our stock price.

Our business may be adversely affected by changes in our merchandise sourcing.

All of our vendors must comply with applicable laws and our required standards of conduct. Our ability to find qualified vendors 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, 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 our control and could adversely impact our performance.

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

Future performance will depend upon our ability to attract, retain and motivate qualified employees, including store personnel and field management. Many of those associates are in entry level or part time positions with historically high rates of turnover. Our ability to meet our labor needs while controlling costs is subject to external factors such as unemployment levels, prevailing wage rates, minimum wage legislation and changing demographics. If we are unable to attract and retain quality associates, our ability to meet our growth goals or to sustain expected levels of profitability may be compromised. In addition, a large number of our retail employees are paid the prevailing minimum wage, which if increased would negatively affect our profitability and could, if the increase were material enough, require us to adjust our business strategy, which may include the closure of our less profitable stores. Although none of our employees are currently covered under collective bargaining agreements, we cannot guarantee that our employees will not elect to be represented by labor unions in the future. In addition, proposed legislation called the Employee Free Choice Act could make it easier for unions to organize based on card check authorization rather than by secret ballot election and could give third-party arbitrators the ability to impose terms of a collective bargaining agreement upon us and a labor union if we and the union did not agree to the terms of a collective bargaining agreement. If some or all of our workforce were to become unionized and collective bargaining agreement terms were significantly different from our current compensation arrangements or work practices, it could have a material adverse effect on our business, financial condition and results of operations.

A change in the relationship with any of our key vendors.

Our business is dependent to a significant degree upon our ability to purchase premium brand-name merchandise at competitive prices, including the receipt of volume discounts, cooperative advertising and markdown allowances from our vendors. The Company purchased approximately 82% of its merchandise in fiscal 2010 from its top five vendors and expects to continue to obtain a significant percentage of its product from these vendors in future periods. Approximately 65% was purchased from one vendor (Nike). Our inability to obtain merchandise in a timely manner from major suppliers (particularly Nike) as a result of business decisions by our suppliers or any disruption in the supply chain could have a material adverse effect on our business, financial condition and results of operations. Because of our strong dependence on Nike, any adverse

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development in Nike's financial condition and results of operations or the inability of Nike to develop and manufacture products that appeal to our target customers could also have an adverse effect on our business, financial condition and results of operations.

Our business may be adversely affected by regulatory and litigation developments.

Various aspects of our operations are subject to federal, state or local laws, rules and regulations, any of which may change from time to time. Our sales and results of operations may be adversely affected by new legal requirements, including health care legislation and proposed climate change and other environmental legislation and regulations. For example, new legislation or regulations may result in increased costs directly for our compliance or indirectly to the extent that such requirements increase prices of goods and services because of increased compliance costs or reduced availability of raw materials. At this time, we are unable to determine the impact that healthcare reform could have on our employer-sponsored medical plans. Additionally, we are regularly involved in various litigation matters that arise in the ordinary course of our business. Litigation or regulatory developments could adversely affect our business operations and financial performance.

Our business may be adversely affected by the failure to identify suitable store locations and acceptable lease terms.

To take advantage of customer traffic and the shopping preferences of our customers, we need to obtain and retain stores in desirable locations such as in regional and neighborhood malls anchored by major department stores. We cannot be certain that desirable mall locations will continue to be available. Several large landlords dominate the ownership of prime malls in the United States and because of our dependence upon these landlords for a substantial number of our locations, any significant erosion of our relationships with these landlords or their financial condition would negatively affect our ability to obtain and retain store locations. Additionally, further landlord consolidation may negatively affect our ability to obtain and retain store locations at acceptable lease terms. The Company's average lease term remaining for all stores is relatively short (average remaining term of 4 years). Due to the short-term nature, the Company is subject to potential market changes, which could increase occupancy costs and adversely affect profitability.

Our inability to implement our strategic growth initiatives may have an adverse impact on our future results.

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

A major failure of our information systems could adversely affect our business.

The efficient operation of our business is dependent on our information systems. In particular, we rely on our information systems to effectively manage sales, distribution, merchandise planning and allocation functions. We possess offsite recovery capabilities for our information systems. The failure of our information systems to perform as designed could disrupt our business and adversely affect sales and profitability.

Unauthorized disclosure of sensitive or confidential customer information, whether through a breach of our computer system or otherwise, could severely harm our business.

As part of our normal course of business, we collect, process and retain sensitive and confidential customer information. Despite the security measures that we have in place, our facilities and systems, and those of our

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third party service providers, may be vulnerable to security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming and/or human errors, or other similar events. Any security breach involving the misappropriation, loss or other unauthorized disclosure of confidential information, whether by us or our third party service providers, could severely damage our reputation, expose us to the risks of litigation and liability, disrupt our operations and harm our business.

Because our stock price may be volatile, our stock price could experience substantial declines.

The market price of our common stock has historically experienced and may continue to experience volatility. Our quarterly operating results, changes in general conditions in the economy or the financial markets, and other developments affecting us or our competitors, could cause the market price of our common stock to fluctuate substantially. In addition, in recent years, the stock market has experienced significant price and volume fluctuations. This volatility has affected the market prices of securities issued by many companies, often for reasons unrelated to their operating performance, and may adversely affect the price of our common stock.

Anti-takeover provisions under the Indiana Business Corporation Law and our 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 our management.

Certain provisions of the Indiana Business Corporation Law (the "IBCL"), specifically the constituent interests provision in Section 23-1-35-1 of the IBCL, the control share acquisitions provisions in Sections 23-1-42-1 to 23-1-42-11 of the IBCL, the business combination provisions in Sections 23-1-43-1 to 23-1-43-24, and certain provisions of our Restated Articles of Incorporation and Bylaws, specifically the provisions creating high vote common stock (the Class B Common Stock), the provisions regarding preferred stock, the provisions requiring a supermajority vote for certain business combinations and for certain amendments to our 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 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 shareholders. The provisions also could limit the price that investors might be willing to pay in the future for shares of our common stock. Further, the existence of these anti-takeover measures may cause potential bidders to look elsewhere, rather than initiating acquisition discussions with us. Any of these factors could reduce the price of our common stock.

Other factors may negatively affect our business.

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

Item 1B. Unresolved Staff Comments

Not Applicable.

Item 2—Properties

The Company's corporate headquarters and distribution center are located on 54 acres in Indianapolis, Indiana. 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 designed to reduce labor costs, increase efficiency in processing merchandise and enhance space productivity. The facility consists of 142,000 square feet of office space and 647,000 square feet of warehouse space.

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Store Locations

At April 16, 2010, the Company operated 667 stores in 47 states. The Company's stores are primarily located in enclosed shopping malls. The following table sets forth information concerning the Company's stores.

<u>State</u>		<u>State</u>	
Alabama	11	Nebraska	6
Arizona	12	Nevada	5
Arkansas	6	New Hampshire	4
California	45	New Jersey	14
Colorado	15	New Mexico	4
Connecticut	9	New York	32
Delaware	1	North Carolina	18
Florida	48	North Dakota	1
Georgia	19	Ohio	38
Idaho	2	Oklahoma	7
Illinois	36	Oregon	2
Indiana	24	Pennsylvania	41
Iowa	9	Rhode Island	1
Kansas	9	South Carolina	10
Kentucky	8	South Dakota	1
Louisiana	10	Tennessee	20
Maine	1	Texas	58
Maryland	18	Utah	2
Massachusetts	15	Virginia	27
Michigan	25	Washington	10
Minnesota	6	West Virginia	7
Mississippi	5	Wisconsin	11
Missouri	12	Wyoming	1
Montana	1		
		Totals	<u>667</u>

The Company leases all of its stores. Initial lease terms for the Company's stores are generally ten years in duration without renewal options, although some of the stores are subject to leases for five years with one or more renewal options. The leases generally provide for a fixed minimum rental plus contingent rent, which is determined as a percentage of gross sales in excess of specified levels.

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 will record a liability related to its legal proceedings and claims when it has determined that it is probable that the Company will be obligated to pay and the related amount can be reasonably estimated, and it will disclose the related facts in the footnotes to its financial statements, if material. 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 flow.

Item 4—Reserved

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Item 4.5—Directors and Executive Officers of the Registrant

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Officer or Director Since</u>
Glenn S. Lyon	59	Chief Executive Officer and Director	2001
Steven J. Schneider	54	President and Chief Operating Officer	1989
Gary D. Cohen(5)	57	Chief Administrative Officer	1997
Donald E. Courtney(6)	55	President, E-Commerce	1989
George S. Sanders	52	Executive Vice President—Real Estate and Store Development	1994
Michael L. Marchetti	59	Executive Vice President—Store Operations	1995
Samuel M. Sato	46	Executive Vice President—Chief Merchandising Officer	2007
Edward W. Wilhelm(7)	51	Executive Vice President—Chief Financial Officer	2009
Alan H. Cohen(3)(8)	63	Chairman of the Board of Directors	1976
Stephen Goldsmith(4)(9)	63	Director	1999
Bill Kirkendall(1)(2)(10)	56	Director	2001
William Carmichael(1)(3)(11)	66	Director	2003
Catherine Langham(2)(4)(12)	52	Director	2006
Dolores Kunda(2)(4)(13)	54	Director	2008
Norman Gurwitz(1)(2)(14)	62	Director	2009
Richard Crystal(4)(15)	65	Director	2009
Mark Landau(1)(16)	52	Director	2010

- (1) Member of the Audit Committee
- (2) Member of the Compensation Committee
- (3) Member of the Finance Committee
- (4) Member of the Governance and Nominating Committee
- (5) Mr. Gary Cohen has served as Chief Administrative Officer since June 2009. Previously he had served as Executive Vice President, General Counsel and Secretary of the Company since April 2000.
- (6) Mr. Courtney has served as President, E-Commerce since August 2009. Previously he had served as Executive Vice President, IS, Distribution, Chief Information Officer and Assistant Secretary of the Company since October 2003, and as Executive Vice President, Chief Information Officer-Distribution from April 2000 – October 2003.
- (7) Mr. Wilhelm has served as Executive Vice President-Chief Financial Officer since March 30, 2009.
- (8) Mr. Cohen is a founder of The Finish Line, Inc. He served as Chief Executive Officer until December 1, 2008.
- (9) Mr. Goldsmith is currently the Daniel Paul Professor of Government at Harvard’s Kennedy School of Government.
- (10) Mr. Kirkendall is a Partner in D.A. Weibring Golf Resources Group and Chief Executive Officer of Pure Motion, Inc.
- (11) Mr. Carmichael currently serves as Chairman of the Board of Trustees of the Columbia Funds Series Trust, Banc of America Funds Trust, Columbia Funds Master Investment Trust, and Columbia Funds Variable Insurance Trust I.
- (12) Ms. Langham is the co-founder, President and Chief Executive Officer of the global logistics firm Langham Logistics, Inc.
- (13) Ms. Kunda is the founder, President and Chief Executive Officer of Lapiz Integrated Hispanic Marketing.
- (14) Mr. Gurwitz is an advisor to Emmis Communications Corporation.
- (15) Mr. Crystal is Chairman and Chief Executive Officer of women’s clothing retailer New York & Company.
- (16) Mr. Landau is Managing Director and Head of CRE Banking Americas for Deutsche Bank Securities, Inc.

PART II**Item 5—Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

The Class A Common Stock is traded on the Nasdaq Global Select Market under the symbol FINL. There is no established public trading market for the Company’s Class B Common Stock.

The following table sets forth, for the periods indicated, the range of high and low sale prices for the Company’s Class A Common Stock as reported by the Nasdaq Stock Market.

<u>Quarter Ended</u>	<u>Fiscal 2010</u>		<u>Fiscal 2009</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
May	\$ 8.65	\$4.06	\$ 8.00	\$3.50
August	9.15	6.70	12.28	6.85
November	11.72	8.01	12.43	3.42
February	13.07	8.70	7.06	3.77

As of April 16, 2010, there were approximately 4,482 record holders of Class A Common Stock and 38 record holders of Class B Common Stock. The number of Class A Common Stock record holders excludes the beneficial owners of shares held in “street” names or held through participants in depositories. All shares of Class B Common Stock are held by the founding shareholders, their family members, directors, officers and other key employees.

On July 22, 2004, the Company’s Board of Directors instituted a quarterly cash dividend program of \$0.025 per share of Class A and Class B Common Stock. In light of the Merger Agreement entered into with Genesco on June 17, 2007, the Company decided to suspend future quarterly dividends beginning with the quarter ended September 1, 2007 until further notice. On July 17, 2008, the Company’s Board of Directors reinstated the quarterly cash dividend program with a 20% increase to \$0.03 per share of Class A and Class B common stock. On January 21, 2010, the Company’s Board of Directors increased its quarterly cash dividend by 33% to \$0.04 per share of Class A and Class B common stock. The Company declared dividends of \$7.1 million and \$4.9 million during fiscal 2010 and 2009, respectively. As of February 27, 2010 and February 28, 2009, dividends declared but not paid of \$2.2 million and \$1.6 million, respectively, were accrued in “Other liabilities and accrued expenses” on the Consolidated Balance Sheets. Further declarations of dividends, if any, remain at the discretion of the Company’s Board of Directors.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN⁽¹⁾
AMONG THE FINISH LINE, INC., THE NASDAQ STOCK MARKET (U.S.) INDEX
AND A PEER GROUP⁽²⁾



(1) \$100 invested on 2/28/05 in stock or index including reinvestment of dividends.

(2) Peer group is: Standard Industrial Classification Codes 5940 through 5949 (actively trading issues during relevant period). SIC codes beginning with 594 represent miscellaneous Shopping Goods Stores which, in management's opinion, most closely represents the peer group of the Company.

On July 17, 2008, the Company's Board of Directors authorized a stock repurchase program to repurchase up to 5.0 million shares of the Company's Class A common stock. Under the stock repurchase program, the Company may purchase shares through December 31, 2011. During the quarter ended February 27, 2010, the Company repurchased 1.4 million shares of its Class A Common Stock at an average price of \$11.47 per share for an aggregate amount of \$15.9 million. Information on the shares repurchased under the program during the fourth quarter of fiscal 2010 is as follows:

Month	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 (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Program
December	—	\$ —	—	5,000,000
January	1,088,141	\$ 11.54	1,088,141	3,911,859
February	<u>301,572</u>	<u>\$ 11.22</u>	<u>301,572</u>	<u>3,610,287</u>
	<u>1,389,713</u>	<u>\$ 11.47</u>	<u>1,389,713</u>	

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

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Item 6—Selected Financial Data

	Year Ended				
	February 27, 2010	February 28, 2009	March 1, 2008	March 3, 2007	February 25, 2006
(in thousands, except per share and store operating data)					
Statement of Operations Data(6):					
Net sales	\$1,172,415	\$1,194,657	\$1,200,863	\$1,262,606	\$1,267,683
Cost of sales (including occupancy costs)	793,556	828,139	843,288	878,092	869,054
Gross profit	378,859	366,518	357,575	384,514	398,629
Selling, general and administrative expenses	297,323	312,011	318,227	315,559	301,402
Store closing costs	2,707	492	307	459	99
Terminated merger-related (income) cost, net	—	(1,969)	91,354	—	—
Impairment charges	6,771	6,118	4,551	3,559	2,523
Insurance settlement	—	—	—	(796)	—
Operating income (loss)	72,058	49,866	(56,864)	65,733	94,605
Interest income, net	322	814	1,380	1,027	2,008
Income (loss) from continuing operations before income taxes	72,380	50,680	(55,484)	66,760	96,613
Income tax expense (benefit)(7)	21,547	20,278	(13,613)	25,230	36,270
Income (loss) from continuing operations	<u>\$ 50,833</u>	<u>\$ 30,402</u>	<u>\$ (41,871)</u>	<u>\$ 41,530</u>	<u>\$ 60,343</u>
Earnings Per Share Data(6):					
Basic income (loss) from continuing operations per share	<u>\$ 0.92</u>	<u>\$ 0.56</u>	<u>\$ (0.89)</u>	<u>\$ 0.87</u>	<u>\$ 1.24</u>
Diluted income (loss) from continuing operations per share	<u>\$ 0.92</u>	<u>\$ 0.55</u>	<u>\$ (0.89)</u>	<u>\$ 0.87</u>	<u>\$ 1.22</u>
Dividends declared per share	<u>\$ 0.130</u>	<u>\$ 0.090</u>	<u>\$ 0.025</u>	<u>\$ 0.100</u>	<u>\$ 0.100</u>
Share Data:					
Basic weighted-average shares	54,221	53,846	47,196	47,250	48,508
Diluted weighted-average shares(1)	54,597	54,108	47,196	47,757	49,367
Selected Store Operating Data(5):					
Number of stores					
Opened during year	5	9	18	40	66
Closed during year	(28)	(17)	(11)	(7)	(7)
Open at end of year	666	689	697	690	657
Total square feet(2)	3,590,780	3,746,413	3,854,733	3,833,996	3,706,121
Average square feet per store(2)	5,392	5,437	5,530	5,557	5,641
Net sales per square foot for comparable stores(3)(4)	\$ 298	\$ 297	\$ 300	\$ 326	\$ 345
(Decrease) increase in comparable store net sales(3)	(0.5)%	0.3%	(4.5)%	(5.9)%	0.7%
Balance Sheet Data:					
Working capital	\$ 328,664	\$ 279,237	\$ 234,747	\$ 237,490	\$ 239,112
Total assets	\$ 610,268	\$ 598,733	\$ 643,047	\$ 656,636	\$ 627,816
Total debt	\$ —	\$ —	\$ —	\$ —	\$ —
Shareholders' equity	\$ 442,150	\$ 424,394	\$ 420,866	\$ 449,278	\$ 428,542

- (1) Consists of weighted-average common and common equivalent shares outstanding for the year.
- (2) Computed as of the end of each fiscal year.
- (3) Calculation includes all stores that are open at the year-end and that have been open more than one year. Accordingly, stores opened and closed during the year are not included. Calculation includes internet sales.
- (4) Calculated excluding sales for the 53rd week in fiscal 2007.
- (5) Man Alive and Paiva stores are excluded from all selected store operating data.
- (6) Amounts are from continuing operations only and therefore exclude results of Man Alive and Paiva, which are included in discontinued operations.
- (7) Fiscal 2010 amount includes a \$6.5 million one-time tax benefit regarding the tax treatment of the terminated merger and litigation expenses.

Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations

Executive Summary

In fiscal 2010, the Company experienced improved results in virtually all facets of the Company’s business. The Company was able to execute on its strategy of maintaining a premium retail position while improving profitability and increasing cash flow. We strengthened our balance sheet and delivered shareholder value despite an environment when consumers remained cautious and traffic in our stores declined from the prior year. Also, in July 2009, we sold our Man Alive chain which had been affecting our operating results negatively. In selling Man Alive, it allowed the Company to focus on the core Finish Line business and improve operating results. Fiscal 2010 highlights from continuing operations were as follows:

- Net sales decreased 1.9% to \$1,172.4 million in fiscal 2010 compared to \$1,194.7 million in fiscal 2009
 - Comparable store net sales for fiscal 2010 were negative 0.5%. This consisted of a first half of the year with a negative 7.2% comparable store net sales and a second half of the year that had a positive 6.6% comparable store net sales.
 - Internet sales (which are included in comparable store net sales) increased by 21.3%
 - Conversion within the stores increased approximately 1%
 - Average dollar per transaction increased approximately 4%
 - Store traffic decreased approximately 7%
- Gross profit was \$378.9 million (32.3% of net sales) in fiscal 2010 compared to \$366.5 million (30.7% of net sales) in fiscal 2009
 - 1.1% increase in product margin as a percentage of net sales
 - Fiscal 2010 product margin percentage was a historical high
 - Occupancy costs lowered by 0.4% as a percentage of net sales
 - Occupancy costs in dollars decreased by 4.8% in fiscal 2010 from fiscal 2009
- SG&A expenses were \$297.3 million (25.4% of net sales) in fiscal 2010 compared to \$312.0 million (26.1% of net sales) in fiscal 2009
 - 0.7% improvement as a percentage of net sales
 - \$14.7 million decrease in dollars, or 4.7% due to tight control over operating expenses
- Operating income was \$72.1 million (6.1% of net sales) in fiscal 2010 compared to \$49.9 million (4.2% of net sales) in fiscal 2009
 - \$22.2 million improvement over fiscal 2009 or 44.5%
 - 1.9% improvement as a percentage of net sales
- Income from continuing operations was \$50.8 million (4.3% of net sales) in fiscal 2010 compared to \$30.4 million (2.5% of net sales) in fiscal 2009
 - \$20.4 million improvement over fiscal 2009 or 67.2%
 - Includes \$6.5 million one-time tax benefit related to the tax treatment of the terminated merger and litigation expenses
 - Diluted income from continuing operations per share of \$0.92 in fiscal 2010 compared to \$0.55 in fiscal 2009
- Cash and cash equivalents were \$234.5 million at February 27, 2010 with no interest bearing debt
 - Generated cash from operations of \$157.5 million in fiscal 2010
 - Capital expenditures were reduced to \$8.5 million in fiscal 2010 from \$14.7 million in fiscal 2009 due to slowing our store growth and controlling all other capital expenditures
 - Paid \$6.6 million of dividends to shareholders in fiscal 2010
 - Purchased \$15.9 million of treasury stock during fiscal 2010
- We opened five new stores and closed 28 during fiscal 2010, ending the year with 666

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

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. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates these estimates, including those related to the valuation of inventories, the potential impairment of long-lived assets and income taxes. 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 preparation of its consolidated financial statements.

Costs of Sales. Costs of sales include the cost associated with acquiring merchandise from vendors, occupancy costs, provision for inventory shortages, and credits and allowances from our merchandise vendors. Cash consideration received from merchandise vendors 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 our cost of sales at the time of sale.

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

Selling, General and Administrative Expenses. Selling, general and administrative expenses include store payroll and related payroll benefits, store operating expenses, advertising, cooperative advertising allowances, costs associated with operating our distribution facility and freight, including moving merchandise from our distribution center to stores, share-based compensation and other corporate related expenses.

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

Vendor Allowances. The Company records vendor allowances and discounts in the consolidated statements of operations when the purpose for which those monies were designated is fulfilled. Allowances provided by vendors generally relate to profitability of inventory recently sold and, accordingly, are reflected as reductions to cost of merchandise sold as negotiated. Vendors' participation in the reduction of the selling price of merchandise fluctuates based on the amount of promotional and clearance markdowns necessary to liquidate the inventory. Vendor allowances received for advertising or fixture programs reduce the Company's expense or expenditure for the related advertising or fixture program.

Impairment of Long-Lived Assets. The Company reviews its long-lived assets and certain identifiable intangible assets 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

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

in its evaluation of potential impairment and then compares the carrying amount of the asset to the estimated non-discounted future cash flows expected to result from the use of the asset. If such assets are considered to be impaired, the impairment recognized is measured by comparing projected individual store discounted cash flows to the asset carrying values. 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.

Operating Leases. The Company leases retail stores under operating leases. Many lease agreements contain rent holidays, rent escalation clauses and/or contingent rent provisions. The Company recognizes rent expense for minimum lease payments on a straight-line basis over the expected lease term, including cancelable option periods where failure to exercise such options would result in an economic penalty. The Company uses a time period for its straight-line rent expense calculation that equals or exceeds the time period used for depreciation. 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 buildout. Contingent rents 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 amount of existing assets and liabilities and their respective tax bases. Deferred tax assets are also recognized for realizable loss and tax credit carryforwards. These deferred tax assets are 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 estimate taxable income for future years by taxing jurisdictions and to consider this when making its judgment to determine whether or not to record a valuation allowance for part or all of a deferred tax asset. Deferred tax assets and liabilities are measured using enacted 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 our Consolidated Statements of Operations in the period that includes the enactment date.

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 records an accrual for exposures after evaluating the positions associated with its various income tax filings. A number of years may elapse before a particular matter for which the Company has established an accrual is audited and fully resolved or clarified. 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 or when more information becomes available. Accruals of uncertain tax positions require management to make estimates and judgments with respect to the ultimate outcome of tax audits. Actual results could vary from these estimates.

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("FAS") No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162" (codified in ASC 105).

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

This standard establishes the Accounting Standards Codification ("ASC" or "Codification") as the source of authoritative accounting principles recognized by FASB for all nongovernmental entities in the preparation of financial statements in accordance with GAAP. For SEC registrants, rules and interpretative releases of the SEC under federal securities laws are also considered authoritative sources of GAAP. The FASB will not issue new standards in the form of Statements, FASB Staff Positions ("FSP") or Emerging Issues Task Force ("EITF") Abstracts. Instead, it will issue Accounting Standard Updates ("ASUs"). ASUs will serve to update the Codification, provide background information about the guidance and provide the basis for conclusions on changes in the Codification. The provisions of this standard are effective for financial statements issued for interim and annual periods ending after September 15, 2009. Accordingly, the Company began to use the new guidelines and numbering system prescribed by the Codification when referring to GAAP for this period ended November 28, 2009. As the Codification was not intended to change or alter existing GAAP, it did not have any impact on our consolidated financial results or financial position.

In December 2007, the FASB issued FAS No. 141 (R), "Business Combinations (Acquisition Method)". This statement amends FAS No. 141, "Business Combinations" (codified in ASC 805), and provides revised guidance for recognizing and measuring identifiable assets and goodwill acquired, liabilities assumed, and any noncontrolling interest in the acquiree. It also provides disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The provisions of ASC 805 were effective for the Company on March 1, 2009. The adoption of ASC 805 did not have a material impact on the Company's financial statements. For any future acquisitions, it is expected that the adoption will have an impact on the Company's consolidated financial statements; however, the magnitude of the impact will depend on the nature, terms and size of the acquisition.

In May 2008, the FASB staff revisited EITF No. 03-6 and issued FSP EITF 03-6-1, "Determining Whether Instruments Granted in Shared-Based Payment Transactions are Participating Securities" (codified in ASC 260-10). This authoritative guidance requires unvested share-based payments that entitle employees and nonemployee directors to receive nonrefundable dividends to also be considered participating securities, as defined in EITF 03-6. This authoritative guidance was effective March 1, 2009 and did not have a material effect on the Company's earnings per share calculations for any of the periods presented.

In June 2008, the FASB issued amendments to FAS No. 128, "Earnings Per Share" (codified in ASC 260-10), which require that unvested share-based payment awards that contain rights to receive nonforfeitable dividends (whether paid or unpaid) be considered participating securities and included in the two-class method of computing earnings per share. The amendments to ASC 260-10 are effective for fiscal years beginning after December 15, 2008, and interim periods within those years. The Company adopted the amendments to ASC 260-10 on March 1, 2009. The adoption of the amendments to ASC 260-10 impacted the determination and reporting of earnings per share by requiring the inclusion of unvested restricted stock and performance restricted stock as participating securities, since they have the right to share in dividends, if declared, equally with common shareholders. The amendments to ASC 260-10 also require retroactive application to previously reported earnings per share amounts. Including these shares in our earnings per share calculation during periods of net income has the effect of diluting both basic and diluted earnings per share. However, in periods of net loss, no effect is given to the participating securities, since they do not have an obligation to share in the losses of the Company. See Note 9, "Earnings (Loss) Per Share", in the Notes to Consolidated Financial Statements for further discussion.

In April 2009, the FASB issued FSP No. FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or the Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly", (codified in ASC 820-10). This standard amends FAS No. 157, "Fair Value Measurements" to provide additional guidance on (i) estimating fair value when the volume and level of activity for an asset or liability have significantly decreased in relation to normal market activity for the asset or liability, and (ii) circumstances

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that may indicate that a transaction is not orderly. ASC 820-10 also requires additional disclosures about fair value measurements in interim and annual reporting periods. The Company adopted this standard on May 31, 2009 and it did not have a material effect on the Company's consolidated financial statements.

In April 2009, the FASB issued FSP No. FAS 107-1 and Accounting Principles Board ("APB") No. 28-1, "Interim Disclosures about Fair Value of Financial Instruments" which amends FAS No. 107, "Disclosures about Fair Value of Financial Instruments" (codified in ASC 825-10), to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies, as well as in annual financial statements. This standard also amends APB Opinion No. 28, "Interim Financial Reporting", to require those disclosures in summarized financial information at interim reporting periods. The Company adopted this authoritative guidance as of May 31, 2009.

In August 2009, the FASB issued ASU 2009-05, "Measuring Liabilities at Fair Value", which provides clarification regarding acceptable valuation techniques for determining the fair value measurement of liabilities in circumstances in which a quoted price in an active market for the identical liability is not available. ASU 2009-05 is effective for interim and annual reporting periods after its issuance. The adoption of ASU 2009-05 did not have a material effect on the Company's consolidated financial statements.

In January 2010, the FASB issued ASU 2010-06, "Fair Value Measurements and Disclosures". ASU 2010-06 amends ASC 820-10, "Fair Value Measurements and Disclosures", and requires new disclosures surrounding certain fair value measurements. ASU 2010-06 is effective for the first interim or annual reporting period beginning on or after December 15, 2009, except for certain disclosures about purchases, sales, issuances and settlements in the rollforward of activity in Level 3 fair value measurements, which are effective for the first interim and annual reporting periods beginning on or after December 15, 2010. The adoption of ASU 2010-06 did not have a material effect on the Company's consolidated financial statements.

Other recent ASU's issued by the FASB and guidance issued by the SEC did not, or are not believed by management to, have a material effect on the Company's present or future consolidated financial statements.

Results of Operations

General. The following discussion and analysis should be read in conjunction with the information set forth under "Selected Financial Data" and the Consolidated Financial Statements and Notes thereto included elsewhere herein. Unless otherwise noted, all amounts reflect the results of the Company's continuing operations and therefore Man Alive and Paiva results have been excluded from the following information because they are reported as discontinued operations for all periods presented.

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

Category	Year Ended					
	February 27, 2010		February 28, 2009		March 1, 2008	
Footwear	\$1,005,166	86%	\$1,023,009	86%	\$1,001,947	83%
Softgoods	167,249	14%	171,648	14%	198,916	17%
Total	<u>\$1,172,415</u>	<u>100%</u>	<u>\$1,194,657</u>	<u>100%</u>	<u>\$1,200,863</u>	<u>100%</u>

[Table of Contents](#)**Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)**

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

	Year Ended		
	February 27, 2010	February 28, 2009	March 1, 2008
Income Statement Data:			
Net sales	100.0%	100.0%	100.0%
Cost of sales (including occupancy costs)	67.7	69.3	70.2
Gross profit	32.3	30.7	29.8
Selling, general and administrative expenses	25.4	26.1	26.5
Store closing costs	0.2	0.1	—
Terminated merger-related (income) cost, net	—	(0.2)	7.6
Impairment charges	0.6	0.5	0.4
Operating income (loss)	6.1	4.2	(4.7)
Interest income, net	—	—	0.1
Income (loss) from continuing operations before income taxes	6.1	4.2	(4.6)
Income tax expense (benefit)	1.8	1.7	(1.1)
Income (loss) from continuing operations	4.3%	2.5%	(3.5)%

Fiscal 2010 Compared to Fiscal 2009. Net sales for fiscal 2010 were \$1,172.4 million, a decrease of \$22.3 million or 1.9%, compared to net sales for fiscal 2009 of \$1,194.7 million. The decrease was primarily a result of a comparable store net sales decrease of 0.5% during fiscal 2010 and an additional \$8.3 million decrease attributable to a decrease in the total number of stores open during the year from 689 stores at the end of fiscal 2009 to 666 stores at the end of fiscal 2010. This decrease was partially offset by an increase of \$3.4 million from the 9 existing stores open for only part of fiscal 2009 and a \$2.6 million change in estimate for gift card forfeitures. Comparable footwear net sales decreased 0.4% for fiscal 2010 primarily driven by a decline in store traffic, partially offset by a 4.5% increase in average selling price. Comparable softgoods net sales decreased by 0.8% for fiscal 2010. During the first half of fiscal 2010 comparable softgoods net sales decreased primarily due to the Company's efforts to right-size the inventory and offerings within softgoods. The Company rebounded in the second half of fiscal 2010 with two straight quarters of positive comparable softgoods net sales. The increase was a result of the Company's efforts over the past couple of years to improve the apparel business by right-sizing the inventory and moving into more premium brands.

Gross profit, which includes product margin, net of shrink, less store occupancy costs, for fiscal 2010 was \$378.9 million compared to gross profit of \$366.5 million in fiscal 2009. This represents an increase of \$12.4 million or 3.4%, compared to fiscal 2009, and an increase of 1.6% as a percentage of net sales. The 1.6% increase was a result of a 1.1% increase in product margin as a percentage of net sales, a 0.4% decrease in occupancy costs as a percentage of net sales and a 0.1% decrease in inventory shrink as a percentage of net sales. The 1.1% increase in product margin as a percentage of net sales is primarily the result of disciplined inventory management which led to being less promotional and improved inventory turns, improved sell through at full retail by focusing on premium product and also obtaining vendor support. The 0.4% decrease in occupancy costs as a percentage of net sales is primarily the result of reduced occupancy dollars of 4.8% by improving the productivity of the real estate.

Selling, general and administrative expenses were \$297.3 million in fiscal 2010, a decrease of \$14.7 million or 4.7% compared to \$312.0 million in fiscal 2009, and decreased to 25.4% from 26.1% as a percentage of net sales. The \$14.7 million decrease is primarily attributable to a decrease in payroll, depreciation, freight and supplies due to targeted cost reductions and reduced store levels.

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Store closing costs were \$2.7 million (0.2% of net sales) in fiscal 2010 compared to \$0.5 million in fiscal 2009. Store closing costs represent the non-cash write-off of any fixtures and equipment upon a store closing. The \$2.2 million increase in store closing costs is due to the Company getting more aggressive in closing underperforming stores earlier in the leases through co-tenancy violations and sales kick-out provisions. The Company closed 28 stores in fiscal 2010 compared to 17 stores in fiscal 2009.

Terminated merger-related income, net was \$2.0 million (0.2% of net sales) in fiscal 2009 related to the final resolution of transaction expenses associated with the terminated merger (see Note 2 to the Company's Consolidated Financial Statements). The Company does not expect to incur any significant ongoing costs relating to this matter.

Impairment charges were \$6.8 million (0.6% of net sales) in fiscal 2010 compared to \$6.1 million (0.5% of net sales) in fiscal 2009. These impairment charges represent the non-cash write-off of long-lived assets on underperforming stores.

Net interest income for fiscal 2010 was \$0.3 million compared to \$0.8 million for fiscal 2009, a decrease of \$0.5 million. This decrease was due to lower interest rates earned, partially offset by higher invested balances for fiscal 2010 compared to fiscal 2009.

The Company's federal and state income tax expense was \$21.5 million (1.8% of net sales) and its effective tax rate was 29.8% for fiscal 2010 compared to federal and state income tax expense of \$20.3 million (1.7% of net sales) and effective tax rate of 40.0% for fiscal 2009. The change in effective tax rate reflects a one-time tax benefit of \$6.5 million in fiscal 2010 related to the Company finalizing a favorable agreement with the Internal Revenue Service regarding the income tax treatment of the terminated merger and litigation expenses (see Note 6 to the Company's Consolidated Financial Statements).

Income from continuing operations was \$50.8 million (6.1% of net sales) for fiscal 2010 compared to income from continuing operations of \$30.4 million (4.2% of net sales) for fiscal 2009. This represents an increase of \$20.4 million or 67.2%. Income from continuing operations per diluted share was \$0.92 for fiscal 2010 compared to income from continuing operations per diluted share of \$0.55 for fiscal 2009, which is an increase of \$0.37 or 67.3%.

Loss from discontinued operations, net of income taxes was \$15.2 million (1.3% of net sales) for fiscal 2010 compared to \$26.6 million (2.2% of net sales) for fiscal 2009. For fiscal 2010, the loss from discontinued operations includes operating losses of \$5.6 million as well as \$18.3 million related to the loss on the sale of Man Alive. This \$18.3 million loss was made up of a \$7.7 million purchase price rebate ("Purchase Price Rebate"), \$7.4 million inventory write-off, \$6.7 million property and equipment write-off, and \$2.4 million in other charges, partially offset by the reversal of "Deferred credits from landlords" of \$5.9 million. The \$23.9 million of loss from discontinued operations was offset partially by an income tax benefit of \$8.7 million. For fiscal 2009, the loss from discontinued operations includes operating losses of \$13.6 million along with \$26.5 million of impairment charges related to Man Alive's long-lived and intangible assets. The \$40.1 million of loss from discontinued operations was partially offset by an income tax benefit of \$13.5 million (see Note 3 to the Company's Consolidated Financial Statements).

Fiscal 2009 Compared to Fiscal 2008. Net sales for fiscal 2009 were \$1,194.7 million, a decrease of \$6.2 million or 0.5%, compared to net sales for fiscal 2008 of \$1,200.9 million. The decrease was attributable to the net effect of store closings and downsizes in fiscal 2009, partially offset by a 0.3% increase in comparable store net sales. Comparable footwear net sales increased 2.9% for fiscal 2009 primarily a result of a 5.7% increase in average selling price for footwear, partially offset by a decline in store traffic. Comparable softgoods net sales decreased by 12.7% for fiscal 2009. The 12.7% decrease in comparable softgoods net sales was a result of management's plan to reduce softgoods inventory levels and focus on increasing inventory turns and return on investments.

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Gross profit, which includes product margin, net of shrink, less store occupancy costs, for fiscal 2009 was \$366.5 million compared to gross profit of \$357.6 million in fiscal 2008. This represents an increase of approximately \$8.9 million or 2.5%, compared to fiscal 2008, and an increase of 0.9% as a percentage of net sales. The 0.9% increase was a result of a 0.6% increase in product margin as a percentage of net sales, a 0.2% decrease in inventory shrink as a percentage of net sales, and a 0.1% decrease in occupancy costs as a percentage of net sales. The 0.6% increase in product margin as a percentage of net sales is primarily the result of being less promotional as the Company's aged inventory, inventory mix and inventory turns continue to improve as we focus on premium product.

Selling, general and administrative expenses were \$312.0 million in fiscal 2009, a decrease of \$6.2 million or 2.0% compared to \$318.2 million in fiscal 2008, and decreased to 26.1% from 26.5% as a percentage of net sales. The \$6.2 decrease is primarily attributable to the Company's efforts to evaluate and reduce selling, general and administrative expenses including expense reductions in store freight, store wages and depreciation.

Store closing costs were \$0.5 million in fiscal 2009 compared to \$0.3 million in fiscal 2008. Store closing costs represent the non-cash write-off of any fixtures and equipment upon a store closing.

Terminated merger-related income, net was \$2.0 million in fiscal 2009. The \$2.0 million related to the final resolution of transaction expenses associated with the terminated merger. Terminated merger-related costs were \$91.4 million (7.6% of net sales) in fiscal 2008. The \$91.4 million consisted of \$39.0 million related to the cash portion of the Settlement Agreement, \$27.7 million related to the issuance of 6,518,971 shares for the non-cash portion of the Settlement Agreement and \$24.7 million for legal and professional fees associated with the terminated merger and settlement (see Note 2 to the Company's Consolidated Financial Statements).

Impairment charges were \$6.1 million (0.5% of net sales) in fiscal 2009 compared to \$4.6 million (0.4% of net sales) in fiscal 2008, an increase of \$1.5 million. These impairment charges represent the non-cash write-off of long-lived assets on underperforming stores.

Net interest income for fiscal 2009 was \$0.8 million (0.1% of net sales) compared to \$1.4 million (0.1% of net sales) for fiscal 2008, a decrease of \$0.6 million. This decrease was due to lower interest rates earned for fiscal 2009 compared to fiscal 2008.

The Company's federal and state income tax expense was \$20.3 million (1.7% of net sales) and its effective tax rate was 40.0% for fiscal 2009 compared to a benefit for federal and state income taxes of \$13.6 million (1.1% of net sales) and effective tax rate of (24.5)% for fiscal 2008. The change in effective tax rate reflects a \$6.6 million valuation allowance established in fiscal 2008 for certain deferred tax assets.

Income from continuing operations was \$30.4 million for fiscal 2009 compared to a loss from continuing operations of \$41.9 million for fiscal 2008. Income from continuing operations per diluted share was \$0.55 for fiscal 2009 compared to a loss from continuing operations per diluted share of \$0.89 for fiscal 2008. Diluted weighted average shares outstanding were 54,108,000 and 47,196,000, for fiscal 2009 and 2008, respectively. Diluted weighted shares outstanding for fiscal 2009 include the impact of the 6.5 million shares issued to Genesco related to the Settlement Agreement (see Note 2 to the Company's Consolidated Financial Statements).

Loss from discontinued operations, net of income taxes was \$26.6 million (2.2% of net sales) for fiscal 2009 compared to \$18.9 million (1.6% of net sales) for fiscal 2008. For fiscal 2009, the loss from discontinued operations includes operating losses of \$13.6 million along with \$26.5 million of impairment charges related to Man Alive's long-lived and intangible assets. The \$40.1 million of loss from discontinued operations was partially offset by an income tax benefit of \$13.5 million. For fiscal 2008, the loss from discontinued operations

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

includes operating losses of \$14.7 million as well as \$12.6 million of impairment charges related to long-lived and intangible assets and \$4.1 million of lease expense resulting from \$5.3 million of estimated future rent payments, including estimated lease termination payments, offset by \$1.2 million of reversal of step rent and construction allowance liability previously included within "Deferred credits from landlords" on the Consolidated Balance Sheets. The \$31.4 million of loss from discontinued operations was partially offset by an income tax benefit of \$12.5 million (see Note 3 to the Company's Consolidated Financial Statements).

Liquidity and Capital Resources. The Company finances the opening of new stores and the resulting increase in inventory requirements principally from operating cash flow and cash on hand. Net cash provided by operations was \$157.5 million, \$59.4 million and \$40.5 million for fiscal 2010, 2009 and 2008, respectively. At February 27, 2010, the Company had cash and cash equivalents of \$234.5 million. This represents a \$118.6 million increase in cash, cash equivalents and marketable securities from the \$115.9 million at February 28, 2009. Cash equivalents are invested in short-term money market funds invested primarily in high-quality tax-exempt municipal instruments with daily liquidity. There were no investments of marketable securities at February 27, 2010. Net cash provided by operating activities increased by \$98.1 million in fiscal 2010 compared to fiscal 2009. This increase is primarily attributable to a \$28.6 million change in income tax payments due to the utilization of net operating loss carryforwards in fiscal 2010, no terminated merger related payments in fiscal 2010 compared to \$47.1 million in payments for terminated merger-related liabilities in fiscal 2009, further improvement to working capital from an additional reduction of inventory of \$13.2 million in fiscal 2010 compared to fiscal 2009 and improved operating results in fiscal 2010 compared to fiscal 2009.

Consolidated merchandise inventories were \$190.9 million at February 27, 2010 compared to \$239.4 million at February 28, 2009. Consolidated merchandise inventories at February 28, 2009 contained Man Alive inventory of \$6.0 million. On a comparable per square foot basis, Finish Line merchandise inventories decreased 14.7% at February 27, 2010 compared to February 28, 2009. The 14.7% decrease per square foot is a result of management's focus on improving inventory turns and productivity.

Capital expenditures were \$8.5 million, \$14.7 million and \$29.4 million for fiscal 2010, 2009 and 2008, respectively. Expenditures in fiscal 2010 were primarily for the construction of 5 new Finish Line stores, the remodeling of 8 existing Finish Line stores, e-commerce website enhancements and various corporate technology upgrades. The decrease in capital expenditures over the past two years has been primarily related to the decrease in new store openings.

The Company anticipates that total capital expenditures for the upcoming fiscal year will be approximately \$20.0-\$25.0 million. Of this amount, \$14.0-\$17.0 million is primarily for the construction of approximately 8-10 new Finish Line stores and the remodeling of 15-20 existing Finish Line stores. The remaining \$6.0-\$8.0 million is related to capital expenditures primarily at the corporate office, including merchandise system enhancements and e-commerce upgrades.

The Company estimates its cash requirement to open a new Finish Line store (averaging 4,000 – 5,000 square feet) to be approximately \$0.7 million. This requirement includes approximately \$0.5 million for fixtures, equipment, leasehold improvements and pre-opening expenses and approximately \$0.3 million (\$0.2 million net of payables) in new store inventory.

On February 18, 2010, the Company entered into an unsecured \$50.0 million Revolving Credit Facility Agreement (the "2010 Credit Agreement") with certain lenders, which expires on March 1, 2013. The 2010 Credit Agreement also provides that, under certain circumstances, the Company may increase the aggregate maximum amount of the credit facility by up to an additional \$50.0 million. The 2010 Credit Agreement will be used by the Company to issue letters of credit. It is the Company's intention to support working capital needs and fund capital expenditures from operating cash flows and cash on hand in the foreseeable future.

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

The 2010 Credit Agreement and related loan documents replace the Company's prior credit facility dated as of February 25, 2005 and related loan documents, in each case as amended from time to time (collectively, the "Prior Credit Agreement"). All commitments under the Prior Credit Agreement were terminated effective February 18, 2010.

Approximately \$4.0 million in stand-by letters of credit was outstanding as of February 27, 2010 under the 2010 Credit Agreement. No advances were outstanding under the 2010 Credit Agreement as of February 27, 2010. Accordingly, the total revolving credit availability under the 2010 Credit Agreement was \$46.0 million as of February 27, 2010.

The Company's ability to borrow monies in the future under the 2010 Credit Agreement is subject to certain conditions, including compliance with certain covenants and making certain representations and warranties. The 2010 Credit Agreement contains restrictive covenants that limit, among other things, mergers and acquisitions. In addition, the Company must maintain a minimum leverage ratio (as defined in the 2010 Credit Agreement) and minimum consolidated tangible net worth (as defined in the 2010 Credit Agreement). The Company was in compliance with all such covenants as of February 27, 2010.

To maintain availability of funds under the 2010 Credit Agreement, the Company will pay a 0.25% per annum commitment fee on the revolving credit commitments under the 2010 Credit Agreement.

The interest rates per annum applicable to amounts outstanding under the 2010 Credit Agreement at February 27, 2010 are, at the Company's option, either (a) the Base Rate as defined in the 2010 Credit Agreement (the "Base Rate") plus a margin of 0.75% per annum, or (b) the LIBOR Rate as defined in the 2010 Credit Agreement (the "LIBOR Rate") plus a margin of 1.75% per annum. The margin over the Base Rate and the LIBOR Rate under the 2010 Credit Agreement may be adjusted quarterly based on the consolidated leverage ratio of the Company, as calculated pursuant to the 2010 Credit Agreement. The maximum margin over the Base Rate under the 2010 Credit Agreement will be 1.0% per annum; the maximum margin over the LIBOR Rate under the 2010 Credit Agreement will be 2.0% per annum. Interest payments under the Credit Agreement are due on the interest payment dates specified in the 2010 Credit Agreement.

The obligations under the 2010 Credit Agreement generally are unsecured, except that, upon a Collateralization Event (as defined in the 2010 Credit Agreement), the Company will be deemed to have granted a security interest in the Collateral (as defined in the 2010 Credit Agreement), subject to certain specified liens. In certain circumstances, such security interest may be released (and may subsequently spring back into effect) depending on whether the Collateralization Event is continuing (or a new Collateralization Event has occurred). No Collateralization Events occurred during fiscal 2010.

On July 17, 2008, the Company's Board of Directors authorized a new stock repurchase program to repurchase up to 5,000,000 shares of the Company's Class A common stock. Under the stock repurchase program, the Company may purchase shares through December 31, 2011. During fiscal 2010, the Company repurchased 1,389,713 shares of its Class A Common Stock at an average price of \$11.47 per share for an aggregate amount of \$15.9 million. The Company did not repurchase any shares under the new stock repurchase program during fiscal 2009. As of February 27, 2010, the Company holds as treasury shares 6,171,125 shares of its Class A Common Stock at an average price of \$9.79 per share for an aggregate purchase amount of \$60.4 million. The treasury shares may be issued upon the exercise of employee stock options, issuance of shares for the Employee Stock Purchase Plan, issuance of restricted stock, or for other corporate purposes. Further purchases, if any, will occur from time to time, as market conditions warrant and as the Company deems appropriate when judged against other alternative uses of cash.

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Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

On July 22, 2004, the Company's Board of Directors instituted a quarterly cash dividend program of \$0.025 per share of Class A and Class B Common Stock. In light of the Merger Agreement entered into with Genesco on June 17, 2007, the Company decided to suspend future quarterly dividends beginning with the quarter ended September 1, 2007. On July 17, 2008, the Company's Board of Directors reinstated the quarterly cash dividend program with a 20% increase to \$0.03 per share of Class A and Class B common stock. On January 21, 2010, the Company's Board of Directors increased its quarterly cash dividend to \$0.04 per share of Class A and Class B common stock. The Company declared dividends of \$7.1 million and \$4.9 million during fiscal 2010 and 2009, respectively. As of February 27, 2010 and February 28, 2009, dividends declared but not paid were \$2.2 million and \$1.6 million, respectively. Further declarations of dividends, if any, remain at the discretion of the Company's Board of Directors.

Pursuant to the Settlement Agreement entered into with UBS and Genesco (see Note 2 to the Consolidated Financial Statements), the Company agreed to issue to Genesco 6,518,971 shares of the Company's Class A Common Stock (the "Shares"). The Company delivered the Shares to Genesco on March 7, 2008. The Company filed a registration statement relating to the Shares with the Securities and Exchange Commission on April 4, 2008, which was declared effective on April 28, 2008. Genesco distributed the shares to Genesco shareholders on June 13, 2008. Also, as part of the Settlement Agreement, the Company agreed to pay Genesco \$39.0 million in cash, which the Company paid on March 7, 2008.

Management believes that cash on hand, operating cash flow and borrowing availability under the Company's 2010 Credit Agreement will be sufficient to complete the Company's store expansion and remodel program and to satisfy the Company's other capital requirements, including other strategic growth initiatives, through the upcoming fiscal year.

The following table summarizes the Company's long-term contractual obligations as of February 27, 2010 (in thousands):

	Total	Payments Due by Period				Other
		Less than 1 Year	2-3 Years	4-5 Years	After 5 Years	
Contractual Obligations						
Operating Lease Obligations	\$ 369,714	\$ 79,440	\$ 129,520	\$ 95,146	\$ 65,608	\$ —
Other Liabilities(1)	13,542	667	—	—	—	12,875
Total Contractual Obligations	\$ 383,256	\$ 80,107	\$ 129,520	\$ 95,146	\$ 65,608	\$ 12,875

(1) Other Liabilities includes future estimated payments associated with unrecognized tax benefits of \$12.1 million under "Other". The Company expects to make cash outlays in the future related to our unrecognized tax benefits. However, due to the uncertainty of the timing of future cash flows associated with our unrecognized tax benefits, we are unable to make reasonably reliable estimates of the period of cash settlement, if any, with the respective taxing 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. Additionally, Other Liabilities includes future payments related to our non-qualified deferred compensation plan of \$0.8 million and has been reflected under "Other" as the timing of these future payments is not known until an associate leaves the Company or otherwise requests an in-service distribution. Other Liabilities also includes \$0.7 million in "Less than 1 Year" for deferred payments related to the sale of Man Alive.

In the ordinary course of business, the Company enters into arrangements with vendors to purchase merchandise up to 12 months in advance of expected delivery. These purchase orders do not contain any significant termination payments or other penalties if cancelled. Total purchase orders outstanding at February 27, 2010 are \$314.5 million.

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)**Loss from Discontinued Operations**

On June 21, 2009, The Finish Line, Inc. and its wholly owned subsidiary The Finish Line Man Alive, Inc. ("Man Alive") entered into a definitive asset purchase agreement (the "Purchase Agreement") with Man Alive Acquisitions, LLC ("the Buyer"), under which the Buyer assumed certain assets and liabilities of Man Alive. The transaction closed on July 3, 2009 with an effective date of July 4, 2009. The assets acquired by the Buyer (the "Assets") included all of Man Alive's leasehold interests (excluding the leasehold interest in Man Alive's corporate headquarters) (the "Leases"), all furniture, fixtures and equipment at Man Alive's retail stores, the inventory in the stores and in the Company's distribution center ("Received Inventory"), the inventory under open purchase order commitments (the "Ordered Inventory"), and all intellectual property of Man Alive, including the "Man Alive" and "Decibel" trademarks and trade names. No other significant assets were purchased by the Buyer. The principal liability assumed by the Buyer was Man Alive's liability for the Leases. Consents to the assignment of the Leases were received from all the landlords.

In consideration for the Buyer assuming the liabilities described above and in the Purchase Agreement, the Buyer received the Assets as well as the Purchase Price Rebate from Man Alive. The Purchase Price Rebate was equal to the sum of \$8.3 million plus an amount equal to Man Alive's gift card liability, minus an amount equal to forty percent (40%) of the sum of the value of (A) the value of the Received Inventory in excess of \$7.5 million, plus (B) the value of the Ordered Inventory.

The Purchase Price Rebate was paid in three components. The Company paid the Buyer \$1.6 million at closing which was the Purchase Price Rebate less (A) the \$4.1 million Escrow Amount (as hereafter defined) and (B) a \$2.0 million installment payment. The \$4.1 million Escrow Amount was paid by the Company to a third party escrow agent at closing. The \$2.0 million installment payment is payable by the Company in 12 equal monthly installments beginning August 2009.

The Escrow Amount was composed of the following components. First, \$2.3 million was held in escrow until January 4, 2010 to reimburse the Buyer for payments to landlords for August, September and October, 2009 rents. The parties reconciled the actual amounts paid to the landlords for this period, with the Company reimbursing the Buyer the shortfall, \$0.5 million (which was accrued upon the closing of the transaction), on January 4, 2010. In addition, \$1.9 million will be held in escrow, representing the aggregate estimated amount of rent and additional rent payable for a limited period following the three-month payment period described above for leases guaranteed by the Company beyond the closing.

Man Alive's net assets primarily consisted of property and equipment of \$6.8 million and inventory of \$6.0 million as of February 28, 2009. The results of operations of Man Alive have been classified in discontinued operations for all periods presented. The financial results of the Man Alive operations, which are included in discontinued operations in the accompanying Consolidated Statements of Operations, were as follows (in thousands):

	Year Ended		
	February 27, 2010	February 28, 2009	March 1, 2008
Net sales	<u>\$ 10,925</u>	<u>\$ 67,606</u>	<u>\$ 76,299</u>
Loss from discontinued operations	<u>\$ (23,911)</u>	<u>\$ (39,684)</u>	<u>\$(10,949)</u>
Income tax benefit	<u>8,672</u>	<u>13,319</u>	<u>4,318</u>
Loss from discontinued operations, net of income tax benefit	<u>\$ (15,239)</u>	<u>\$ (26,365)</u>	<u>\$ (6,631)</u>

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Management’s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

For fiscal 2010, the loss from discontinued operations of Man Alive included operating losses of \$5.6 million as well as \$18.3 million related to the loss on sale of Man Alive. The \$18.3 million was made up of the \$7.7 million Purchase Price Rebate, \$7.4 million inventory write-off, \$6.7 million property and equipment write-off and \$2.4 million in other charges, partially offset by the reversal of “Deferred credits from landlords” of \$5.9 million. The \$18.3 million loss was comprised of \$10.2 million of cash payments and \$8.1 million of non-cash net charges.

For fiscal 2009 and fiscal 2008, the loss from discontinued operations of Man Alive included operating losses and \$26.5 million and \$1.1 million of pre-tax, non-cash impairment charges related to long-lived and intangible assets, respectively.

Based on the Purchase Agreement with the Buyer, the Company anticipates that all cash outlays related to deferred payments to Man Alive will be made by July 2010. The balance and net activity for the \$2.0 million installment payment to the Buyer, which is included within “Other liabilities and accrued expenses,” are as follows (in thousands):

	Installment Payment
Balance at February 28, 2009	\$ —
Provision	2,000
Cash payments	<u>(1,333)</u>
Balance at February 27, 2010	<u>\$ 667</u>

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 27, 2010. The Company does not use interest rate derivative instruments to manage exposure to interest rate changes.

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, as amended). 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 27, 2010. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control—Integrated Framework*. Based on our assessment we believe that, as of February 27, 2010, 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 27, 2010.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON
INTERNAL CONTROL OVER FINANCIAL REPORTING**

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 27, 2010, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (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.

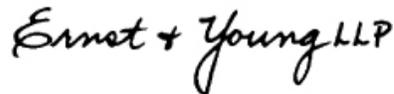
We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material 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 27, 2010, 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 27, 2010 and February 28, 2009, 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 27, 2010 of The Finish Line, Inc., and our report dated May 6, 2010 expressed an unqualified opinion thereon.

The signature of Ernst & Young LLP is written in a cursive, handwritten style in black ink.

Indianapolis, Indiana
May 6, 2010

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

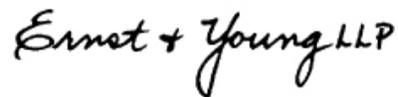
The Board of Directors and Shareholders of The Finish Line, Inc.

We have audited the accompanying consolidated balance sheets of The Finish Line, Inc. as of February 27, 2010 and February 28, 2009, 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 27, 2010. 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 27, 2010 and February 28, 2009, and the consolidated results of its operations and its cash flows for each of the three years in the period ended February 27, 2010, 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 27, 2010, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated May 6, 2010, expressed an unqualified opinion thereon.

The signature of Ernst & Young LLP is written in a cursive, handwritten style in black ink.

Indianapolis, Indiana
May 6, 2010

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

	February 27, 2010	February 28, 2009
Assets		
Current Assets		
Cash and cash equivalents	\$ 234,508	\$ 100,962
Marketable securities	—	14,913
Accounts receivable, net	3,767	4,930
Merchandise inventories, net	190,894	239,409
Income taxes receivable	—	8,492
Other	14,438	18,369
Total current assets	<u>443,607</u>	<u>387,075</u>
Property and Equipment		
Land	1,557	1,557
Building	41,620	41,843
Leasehold improvements	225,718	250,031
Furniture, fixtures and equipment	104,295	110,415
Construction in progress	2,635	1,589
	<u>375,825</u>	<u>405,435</u>
Less accumulated depreciation	<u>239,882</u>	<u>232,316</u>
	135,943	173,119
Deferred income taxes	27,357	37,290
Other assets, net	3,361	1,249
Total assets	<u>\$ 610,268</u>	<u>\$ 598,733</u>
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	\$ 60,301	\$ 64,415
Employee compensation	16,258	12,599
Accrued property and sales tax	7,637	7,722
Income taxes payable	10,119	—
Deferred income taxes	4,370	7,213
Other liabilities and accrued expenses	16,258	15,889
Total current liabilities	<u>114,943</u>	<u>107,838</u>
Commitments and contingencies		
Deferred credits from landlords	40,006	51,939
Other long-term liabilities	13,169	14,562
Shareholders' Equity		
Preferred stock, \$.01 par value; 1,000 shares authorized; none issued	—	—
Common stock, \$.01 par value		
Class A:		
Shares authorized—100,000		
Shares issued—(2010—57,256; 2009—55,296)		
Shares outstanding—(2010—51,085; 2009—50,025)	572	553
Class B:		
Shares authorized—10,000		
Shares issued and outstanding—(2010—2,053; 2009—4,013)	21	40
Additional paid-in capital	189,664	186,655
Retained earnings	312,305	283,757
Treasury stock (2010—6,171; 2009—5,271)	<u>(60,412)</u>	<u>(46,611)</u>
Total shareholders' equity	<u>442,150</u>	<u>424,394</u>
Total liabilities and shareholders' equity	<u>\$ 610,268</u>	<u>\$ 598,733</u>

See accompanying notes

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

	Year Ended		
	February 27, 2010	February 28, 2009	March 1, 2008
Net sales	\$1,172,415	\$1,194,657	\$1,200,863
Cost of sales (including occupancy costs)	793,556	828,139	843,288
Gross profit	378,859	366,518	357,575
Selling, general and administrative expenses	297,323	312,011	318,227
Store closing costs	2,707	492	307
Terminated merger-related (income) cost, net	—	(1,969)	91,354
Impairment charges	6,771	6,118	4,551
Operating income (loss)	72,058	49,866	(56,864)
Interest income, net	322	814	1,380
Income (loss) from continuing operations before income taxes	72,380	50,680	(55,484)
Income tax expense (benefit)	21,547	20,278	(13,613)
Income (loss) from continuing operations	50,833	30,402	(41,871)
Loss from discontinued operations, net of income tax benefit	(15,161)	(26,644)	(18,941)
Net income (loss)	\$ 35,672	\$ 3,758	\$ (60,812)
Income (loss) per basic share:			
Income (loss) from continuing operations	\$ 0.92	\$ 0.56	\$ (0.89)
Loss from discontinued operations	(0.27)	(0.49)	(0.40)
Net income (loss)	\$ 0.65	\$ 0.07	\$ (1.29)
Income (loss) per diluted share:			
Income (loss) from continuing operations	\$ 0.92	\$ 0.55	\$ (0.89)
Loss from discontinued operations	(0.28)	(0.48)	(0.40)
Net income (loss)	\$ 0.64	\$ 0.07	\$ (1.29)
Dividends declared per share	\$ 0.130	\$ 0.090	\$ 0.025

See accompanying notes

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

	Year Ended		
	February 27, 2010	February 28, 2009	March 1, 2008
Operating activities			
Net income (loss)	\$ 35,672	\$ 3,758	\$(60,812)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Loss on sale of discontinued operations	18,284	—	—
Impairment charges	6,771	32,588	17,189
Depreciation and amortization	29,977	37,496	41,157
Issuance of Class A Common Stock related to terminated merger	—	—	27,706
Deferred income taxes	7,090	16,607	(44,718)
Loss on disposal of property and equipment	3,075	1,063	694
Share-based compensation	3,508	4,412	6,123
Excess tax benefits from share-based compensation	(433)	(52)	(158)
Changes in operating assets and liabilities			
Accounts receivable	1,187	2,816	5,099
Merchandise inventories	42,074	28,924	18,967
Other assets	1,371	(2,589)	1,532
Accounts payable	(4,055)	647	(19,858)
Employee compensation	3,535	2,440	1,541
Terminated merger-related liabilities	—	(47,129)	47,129
Income taxes payable/receivable	16,452	(12,143)	636
Other liabilities and accrued expenses	(993)	(1,733)	3,112
Deferred credits from landlords	(6,057)	(7,703)	(4,830)
Net cash provided by operating activities	157,458	59,402	40,509
Investing activities			
Payments for sale of discontinued operations	(10,195)	—	—
Additions to property and equipment	(8,454)	(14,734)	(29,405)
Proceeds from disposals of property and equipment	103	933	277
Purchases of marketable securities	—	(24,899)	(58,750)
Proceeds from sale of marketable securities	14,913	9,986	58,750
Net cash used in investing activities	(3,633)	(28,714)	(29,128)
Financing activities			
Proceeds from short-term borrowings	—	10,000	1,800
Repayments on short-term borrowings	—	(10,000)	(1,800)
Dividends paid to shareholders	(6,610)	(3,292)	(2,376)
Proceeds from issuance of common stock	1,834	613	874
Excess tax benefits from share-based compensation	433	52	158
Purchase of treasury stock	(15,936)	—	—
Net cash used in financing activities	(20,279)	(2,627)	(1,344)
Net increase in cash and cash equivalents	133,546	28,061	10,037
Cash and cash equivalents at beginning of year	100,962	72,901	62,864
Cash and cash equivalents at end of year	<u>\$ 234,508</u>	<u>\$ 100,962</u>	<u>\$ 72,901</u>

See accompanying notes

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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
	Class A	Class B	Treasury	Class A	Class B				
Balance at March 3, 2007	42,020	5,141	5,629	\$ 476	\$ 52	\$ 149,667	\$ 347,276	\$ (48,193)	\$449,278
Net loss							(60,812)		(60,812)
Cash dividends declared (\$0.025 per share)							(1,193)		(1,193)
Cumulative effect of adoption of FIN 48							(335)		(335)
Non-qualified Class A Common Stock options exercised and related tax benefits	95		(95)			(756)		435	(321)
Share-based compensation	(1)		1			6,129		(6)	6,123
Shares issued under employee stock purchase plan	92		(92)			10		410	420
Class A Common Stock to be issued related to terminated merger						27,706			27,706
Balance at March 1, 2008	42,206	5,141	5,443	476	52	182,756	284,936	(47,354)	420,866
Net income							3,758		3,758
Cash dividends declared (\$0.09 per share)							(4,937)		(4,937)
Non-qualified Class A Common Stock options exercised and related tax benefits	39		(39)			(192)		173	(19)
Share-based compensation						4,412			4,412
Restricted shares vested, net of repurchase for taxes	60		(60)			(353)		247	(106)
Shares issued under employee stock purchase plan	73		(73)			97		323	420
Class B Common Stock conversion to Class A Common Stock	1,128	(1,128)		12	(12)				—
Class A Common Stock issued related to terminated merger	6,519			65		(65)			—
Balance at February 28, 2009	50,025	4,013	5,271	553	40	186,655	283,757	(46,611)	424,394
Net income							35,672		35,672
Cash dividends declared (\$0.13 per share)							(7,124)		(7,124)
Non-qualified Class A Common Stock options exercised and related tax benefits	327		(327)			246		1,449	1,695
Share-based compensation						3,508			3,508
Restricted shares vested, net of repurchase for taxes	110		(110)			(887)		455	(432)
Shares issued under employee stock purchase plan	53		(53)			142		231	373
Class B Common Stock conversion to Class A Common Stock	1,960	(1,960)		19	(19)				—
Treasury Stock purchased	(1,390)		1,390					(15,936)	(15,936)
Balance at February 27, 2010	51,085	2,053	6,171	\$ 572	\$ 21	\$ 189,664	\$ 312,305	\$ (60,412)	\$442,150

See accompanying notes

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. (“Finish Line”) and its wholly-owned subsidiaries (collectively, the “Company”). All intercompany transactions and balances have been eliminated. Throughout these notes to the consolidated financial statements, the fiscal years ended February 27, 2010, February 28, 2009 and March 1, 2008 are referred to as 2010, 2009 and 2008, respectively.

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 2010, 2009 and 2008.

Nature of Operations. Finish Line is a premium athletic footwear store offering a large selection of performance and athletic casual footwear, apparel and accessories for men, women and kids. The Company operated Man Alive stores, which was a street fashion retailer offering men’s and women’s name brand fashions from the industry’s leading designers for a portion of 2010 and all of 2009 and 2008. On June 21, 2009, The Finish Line, Inc. and its wholly owned subsidiary The Finish Line Man Alive, Inc. (“Man Alive”) entered into a definitive asset purchase agreement (the “Purchase Agreement”) with Man Alive Acquisitions, LLC (“the Buyer”), under which the Buyer assumed certain assets and liabilities of Man Alive. The transaction closed on July 3, 2009 with an effective date of July 4, 2009. The Company operated Paiva stores, which targeted the active woman, for a portion of 2008. On August 27, 2007, the Board of Directors of the Company approved management’s recommendation to proceed with the closure of all 15 Paiva stores as a thorough assessment and analysis revealed the concept was not demonstrating the potential necessary to deliver an acceptable long-term return on investment. All results of operations related to Man Alive and Paiva are included within “Loss from discontinued operations” on the Consolidated Statements of Operations. The Company manages its business on the basis of one reportable segment. Finish Line stores are primarily located in enclosed malls throughout most of the United States.

In 2010, Finish Line purchased approximately 82% of its merchandise from its five largest suppliers. The largest supplier, Nike, accounted for approximately 65%, 64% and 56% of merchandise purchases in 2010, 2009 and 2008, respectively.

Use of Estimates. Preparation of the financial statements in conformity with U.S. generally accepted accounting principles 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.

Cash and Cash Equivalents. Cash and cash equivalents consist primarily of cash on hand and all highly liquid instruments purchased with a maturity of three months or less at the date of purchase.

Marketable Securities. The Company had no outstanding Marketable Securities as of February 27, 2010 and \$14,913,000 as of February 28, 2009. The \$14,913,000 of outstanding marketable securities consisted of U.S. Treasury Bills and were classified as held-to-maturity.

Merchandise Inventories. Merchandise inventories are valued at the lower of cost or market using a weighted-average cost method, which approximates the first-in, first-out method. Merchandise inventories are recorded net of markdowns and shrinkage. Vendor rebates are applied as a reduction to the cost of merchandise inventories.

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 and 3 to 10 years for furniture, fixtures

THE FINISH LINE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

and equipment. 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 charged to continuing operations for 2010, 2009 and 2008 was \$29,398,000, \$33,358,000 and \$36,237,000, respectively.

Impairment of Long-Lived Assets. The Company reviews long-lived assets for impairment related to all stores open for at least two years with negative contribution and cash flows as well as stores opened less than two years whenever other events or changes in circumstances indicate the store's assets may not be recoverable. Recoverability of assets to be held and used is determined by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment recognized is measured by comparing projected individual store discounted cash flows to the asset carrying values.

Intangible Assets. Intangible assets that are deemed to have finite lives are amortized over their estimated useful lives. Intangible assets with finite lives relate to lease acquisition costs and are amortized over the lease term. The weighted average life of the lease acquisition costs is 5 years. The gross cost of the intangible assets with finite lives was \$255,000 and \$1,815,000 and accumulated amortization was \$159,000 and \$697,000 as of February 27, 2010 and February 28, 2009, respectively. Lease acquisition costs of \$860,000 and \$231,000, net were written off during 2010 and 2009, respectively, related to store level impairment charges, as discussed in Note 11. Amortization expense for 2010, 2009 and 2008 was \$162,000, \$243,000 and \$243,000, respectively. Annual estimated amortization expense for finite lived intangible assets is expected to approximate \$19,000 over the next five years.

Deferred Credits From Landlords. 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 operating lease payments due and straight-line rent expense, which is recorded by the Company over the term of the lease, including the build-out period. This amount is generally recorded as a deferred credit in the early years of the lease, when cash payments are generally lower than the straight-line rent expense, and reduced in the later years of the lease, when payments begin to exceed the straight-line expense. Landlord allowances are generally comprised of amounts promised to the Company by landlords in the form of cash or rent abatements. 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 (including the pre-opening build-out period) of the applicable lease and the receivable is reduced as amounts are received from the landlord.

Revenue Recognition. Revenues are recognized at the time the customer receives the merchandise, which for Internet revenues reflects an estimate of shipments that have not been received by the customer based on shipping terms and estimated delivery times. Sales include merchandise, net of returns and exclude all taxes. Revenue from layaway sales is recognized when the customer receives the merchandise.

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 determined the gift card breakage rate based on historical redemption patterns. During the 4th quarter of 2010, the Company recorded \$2,622,000 of revenue related to the initial recognition of

THE FINISH LINE, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

gift card breakage. Gift card breakage is included in Net Sales in the Company's Consolidated Statements of Operations, however is not included in the comparable store net sales.

Costs of Sales. Costs of sales include the cost associated with acquiring merchandise from vendors, occupancy costs, provision for inventory shortages, and credits and allowances from merchandise vendors. Cash consideration received from merchandise vendors 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 our cost of sales at the time of sale.

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

Selling, General and Administrative Expenses. Selling, general and administrative expenses include store payroll and related payroll benefits, store operating expenses, advertising, cooperative advertising allowances, costs associated with operating our distribution facility and freight, including moving merchandise from our distribution center to stores, share-based compensation and other corporate related expenses.

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. Advertising expense charged to continuing operations was as follows (in thousands):

	Year ended February 27, 2010	Year ended February 28, 2009	Year ended March 1, 2008
Advertising expense	\$ 21,129	\$ 22,190	\$ 26,370
Cooperative advertising credits	(4,393)	(4,398)	(6,632)
Net advertising expense	<u>\$ 16,736</u>	<u>\$ 17,792</u>	<u>\$ 19,738</u>

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

Store Closing Costs. Store closing costs represent the non-cash write-off of any fixtures and equipment upon a store closing. In the event a store is closed before its lease has expired, any estimated post-closing lease obligations, less sublease rental income, is provided for when the leased space is no longer in use. The Company closed 28, 17 and 11 stores in 2010, 2009 and 2008, respectively.

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. 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. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets if it is more likely than not that such assets will not be realized.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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 items including changes in tax law, the tax jurisdiction of new stores or business ventures, the level of earnings or losses, the results of tax audits and the level of investment income.

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 records an accrual for exposures after evaluating the positions associated with its various income tax filings. A number of years may elapse before a particular matter for which the Company has established an accrual is audited and fully resolved or clarified. 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 or when more 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 (benefit)" on the Consolidated Statements of Operations.

Earnings Per Share. Basic earnings (loss) per share is calculated by dividing net income (loss) associated with common shareholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per share 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 discussed in ASC 260-10, "Earnings Per Share".

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

Financial Instruments. Financial instruments consist of cash and cash equivalents, marketable securities, accounts receivable and accounts payable. The carrying value of cash and cash equivalents, marketable securities, accounts receivable and accounts payable approximate fair value.

As of February 27, 2010 and February 28, 2009, 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.

THE FINISH LINE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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.

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.

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

On March 1, 2009, the Company adopted the remaining portions of Financial Accounting Standards Board (“FASB”) guidance, for all non-financial assets and non-financial liabilities recognized or disclosed in the financial statements on a nonrecurring basis. As of February 27, 2010, the Company had no non-financial assets or non-financial liabilities requiring measurement at fair value.

Recent Accounting Pronouncements. In June 2009, the FASB issued Statement of Financial Accounting Standard (“FAS”) No. 168, “The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162” (codified in ASC 105). This standard establishes the Accounting Standards Codification (“ASC” or Codification”) as the source of authoritative accounting principles recognized by FASB for all nongovernmental entities in the preparation of financial statements in accordance with GAAP. For SEC registrants, rules and interpretative releases of the SEC under federal securities laws are also considered authoritative sources of GAAP. The FASB will not issue new standards in the form of Statements, FASB Staff Positions (“FSP”) or Emerging Issues Task Force (“EITF”) Abstracts. Instead, it will issue Accounting Standard Updates (“ASUs”). ASUs will serve to update the Codification, provide background information about the guidance and provide the basis for conclusions on changes in the Codification. The provisions of this standard are effective for financial statements issued for interim and annual periods ending after September 15, 2009. Accordingly, the Company began to use the new guidelines and numbering system prescribed by the Codification when referring to GAAP for this period ended

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

November 28, 2009. As the Codification was not intended to change or alter existing GAAP, it did not have any impact on our consolidated financial results or financial position.

In December 2007, the FASB issued FAS No. 141 (R), “Business Combinations (Acquisition Method)”. This statement amends FAS No. 141, “Business Combinations” (codified in ASC 805), and provides revised guidance for recognizing and measuring identifiable assets and goodwill acquired, liabilities assumed, and any noncontrolling interest in the acquiree. It also provides disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The provisions of ASC 805 were effective for the Company on March 1, 2009. The adoption of ASC 805 did not have a material impact on the Company’s financial statements. For any future acquisitions, it is expected that the adoption will have an impact on the Company’s consolidated financial statements; however, the magnitude of the impact will depend on the nature, terms and size of the acquisition.

In May 2008, the FASB staff revisited EITF No. 03-6 and issued FSP EITF 03-6-1, “Determining Whether Instruments Granted in Shared-Based Payment Transactions are Participating Securities” (codified in ASC 260-10). This authoritative guidance requires unvested share-based payments that entitle employees and nonemployee directors to receive nonrefundable dividends to also be considered participating securities, as defined in EITF 03-6. This authoritative guidance was effective March 1, 2009 and did not have a material effect on the Company’s earnings per share calculations for any of the periods presented.

In June 2008, the FASB issued amendments to FAS No. 128, “Earnings Per Share” (codified in ASC 260-10), which require that unvested share-based payment awards that contain rights to receive nonforfeitable dividends (whether paid or unpaid) be considered participating securities and included in the two-class method of computing earnings per share. The amendments to ASC 260-10 are effective for fiscal years beginning after December 15, 2008, and interim periods within those years. The Company adopted the amendments to ASC 260-10 on March 1, 2009. The adoption of the amendments to ASC 260-10 impacted the determination and reporting of earnings per share by requiring the inclusion of unvested restricted stock and performance restricted stock as participating securities, since they have the right to share in dividends, if declared, equally with common shareholders. The amendments to ASC 260-10 also require retroactive application to previously reported earnings per share amounts. Including these shares in our earnings per share calculation during periods of net income has the effect of diluting both basic and diluted earnings per share. However, in periods of net loss, no effect is given to the participating securities, since they do not have an obligation to share in the losses of the Company. See Note 9, “Earnings (Loss) Per Share”, in the Notes to Consolidated Financial Statements for further discussion.

In April 2009, the FASB issued FSP No. FAS 157-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or the Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly”, (codified in ASC 820-10). This standard amends FAS No. 157, “Fair Value Measurements” to provide additional guidance on (i) estimating fair value when the volume and level of activity for an asset or liability have significantly decreased in relation to normal market activity for the asset or liability, and (ii) circumstances that may indicate that a transaction is not orderly. ASC 820-10 also requires additional disclosures about fair value measurements in interim and annual reporting periods. The Company adopted this standard on May 31, 2009 and it did not have a material effect on the Company’s consolidated financial statements.

In April 2009, the FASB issued FSP No. FAS 107-1 and Accounting Principles Board (“APB”) No. 28-1, “Interim Disclosures about Fair Value of Financial Instruments” which amends FAS No. 107, “Disclosures about

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Fair Value of Financial Instruments” (codified in ASC 825-10), to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies, as well as in annual financial statements. This standard also amends APB Opinion No. 28, “Interim Financial Reporting”, to require those disclosures in summarized financial information at interim reporting periods. The Company adopted this authoritative guidance as of May 31, 2009.

In August 2009, the FASB issued ASU 2009-05, “Measuring Liabilities at Fair Value”, which provides clarification regarding acceptable valuation techniques for determining the fair value measurement of liabilities in circumstances in which a quoted price in an active market for the identical liability is not available. ASU 2009-05 is effective for interim and annual reporting periods after its issuance. The adoption of ASU 2009-05 did not have a material effect on the Company’s consolidated financial statements.

In January 2010, the FASB issued ASU 2010-06, “Fair Value Measurements and Disclosures”. ASU 2010-06 amends ASC 820-10, “Fair Value Measurements and Disclosures”, and requires new disclosures surrounding certain fair value measurements. ASU 2010-06 is effective for the first interim or annual reporting period beginning on or after December 15, 2009, except for certain disclosures about purchases, sales, issuances and settlements in the rollforward of activity in Level 3 fair value measurements, which are effective for the first interim and annual reporting periods beginning on or after December 15, 2010. The adoption of ASU 2010-06 did not have a material effect on the Company’s consolidated financial statements.

Other recent ASU’s issued by the FASB and guidance issued by the SEC did not, or are not believed by management to, have a material effect on the Company’s present or future consolidated financial statements.

2. Terminated Merger

On June 17, 2007, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Genesco Inc. (“Genesco”) under which the Company agreed to acquire all of the outstanding common shares of Genesco for \$54.50 per share in cash (the “Merger”), subject to certain conditions.

UBS Loan Finance LLC and UBS Securities LLC (collectively, “UBS”) committed to provide financing for the Merger and ongoing working capital requirements of the combined company of up to \$1.8 billion through a combination of a Senior Secured Revolving Credit Facility, a Senior Secured Term Loan and a Senior Unsecured Bridge Facility (the “UBS Financing”).

On September 19, 2007, the Company received a communication from UBS indicating its intention to defer further work on the closing documents for the Merger pending its analysis of Genesco’s financial condition and performance. The same day, Genesco delivered a letter to the Company demanding that the Company immediately consummate the Merger. On September 21, 2007, Genesco filed a lawsuit in the Chancery Court in Nashville, Tennessee seeking an order of specific performance requiring the Company to take all steps necessary to consummate the Merger contemplated by the Merger Agreement. The Company filed an answer, counterclaim and third-party claim for declaratory judgment in connection with this action seeking, among other things, a declaratory judgment that a Company Material Adverse Effect had occurred under the Merger Agreement. UBS intervened as a defendant in the Nashville, Tennessee case and filed an answer to Genesco’s complaint. On November 13, 2007, Genesco amended its complaint to add an alternative claim for damages. On November 15, 2007, the Company filed an answer to Genesco’s amended complaint asserting that a Company Material Adverse Effect had occurred under the Merger Agreement and asserting a counterclaim against Genesco for intentional or negligent misrepresentation. On that day, UBS filed an answer to Genesco’s amended complaint and a counterclaim asserting fraud against Genesco.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

On November 14, 2007, the Company was named as a defendant, along with Genesco, in a complaint for declaratory relief filed by UBS in the United States District Court for the Southern District of New York. UBS was seeking a declaration in the New York federal district court action that its commitment letter for the UBS Financing (the “Commitment”), which expired on April 30, 2008 (after an extension agreed to by UBS), was void and/or may properly be terminated by UBS because the Company would not be able to provide, prior to the expiration of the Commitment, a valid solvency certificate attesting to the solvency of the combined Finish Line-Genesco entity resulting from the Merger.

The trial of the issues in the Chancery Court in Nashville concluded on December 18, 2007, and the Chancery Court issued its opinion on December 27, 2007. The Chancery Court held that the Company was required to close the Merger with Genesco and use its reasonable best efforts to obtain the financing required to do so (i.e., either the UBS Financing which was the subject of the New York action, or alternative financing on terms not materially less favorable in the aggregate than the UBS Financing). Although the Chancery Court held that the deterioration in Genesco’s financial condition and operating results constituted a material adverse effect (“MAE”), it also found that Genesco’s decline in performance was due to general economic conditions and was not disproportionate to its peers. As a result, the MAE fell within one of the MAE carve-outs in the Merger Agreement and the Company was, therefore, not excused from completing the Merger based on Genesco’s decline in financial condition and operating results. The Chancery Court reserved for determination by the United States District Court for the Southern District of New York whether the merged entity would be insolvent.

On March 3, 2008, the Company entered into a Settlement Agreement with UBS and Genesco relating to the actions filed by UBS in the United States District Court for the Southern District of New York and filed by Genesco in the Chancery Court for the State of Tennessee (the “Litigation”). The parties agreed to settle the Litigation and to terminate the Merger Agreement and Commitment. As consideration for these agreements, the Company and UBS agreed to make a cash payment in the amount of \$175,000,000 (of which the Company agreed to pay \$39,000,000 and UBS agreed to pay \$136,000,000). The Company also agreed to issue 6,518,971 shares of the Company’s Class A Common Stock (the “Shares”) to Genesco. Pursuant to the Settlement Agreement, the Company paid the \$39,000,000 cash payment and delivered the Shares to Genesco on March 7, 2008. The Company filed a registration statement relating to the Shares with the Securities and Exchange Commission on April 4, 2008, which was declared effective on April 28, 2008. Genesco distributed the Shares to Genesco shareholders on June 13, 2008.

In 2009, the Company recorded terminated merger-related income of \$1,969,000 related to the final resolution of transaction expenses associated with the terminated merger. In 2008, terminated merger-related costs of \$91,354,000 consisted of \$39,000,000 related to the cash payment, \$27,706,000 related to the issuance of the Shares, and \$24,648,000 of legal and professional fees related to the terminated merger and settlement. There was no activity in 2010. The Company does not expect to incur any significant ongoing costs relating to this matter.

3. Discontinued Operations

Man Alive

On June 21, 2009, The Finish Line, Inc. and its wholly owned subsidiary The Finish Line Man Alive, Inc. (“Man Alive”) entered into a definitive asset purchase agreement (the “Purchase Agreement”) with Man Alive Acquisitions, LLC (“the Buyer”), under which the Buyer assumed certain assets and liabilities of Man Alive. The transaction closed on July 3, 2009 with an effective date of July 4, 2009.

The assets acquired by the Buyer (the “Assets”) included all of Man Alive’s leasehold interests (excluding the leasehold interest in Man Alive’s corporate headquarters) (the “Leases”), all furniture, fixtures and equipment

THE FINISH LINE, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

at Man Alive's retail stores, the inventory in the stores and in the Company's distribution center ("Received Inventory"), the inventory under open purchase order commitments (the "Ordered Inventory"), and all intellectual property of Man Alive, including the "Man Alive" and "Decibel" trademarks and trade names. No other significant assets were purchased by the Buyer.

The principal liability assumed by the Buyer was Man Alive's liability for the Leases. Consents to the assignment of the Leases were received from all the landlords.

In consideration for the Buyer assuming the liabilities described above and in the Purchase Agreement, the Buyer received the Assets as well as a purchase price rebate (the "Purchase Price Rebate") from Man Alive. The Purchase Price Rebate was equal to the sum of \$8,250,000 plus an amount equal to Man Alive's gift card liability, minus an amount equal to forty percent (40%) of the sum of the value of (A) the value of the Received Inventory in excess of \$7,500,000, plus (B) the value of the Ordered Inventory.

The Purchase Price Rebate was paid in three components. The Company paid the Buyer \$1,562,000 at closing which was the Purchase Price Rebate less (A) the \$4,143,000 Escrow Amount (as hereafter defined) and (B) a \$2,000,000 installment payment. The \$4,143,000 Escrow Amount was paid by the Company to a third party escrow agent at closing. The \$2,000,000 installment payment is payable by the Company in 12 equal monthly installments beginning August 2009.

The Escrow Amount was composed of the following components. First, \$2,250,000 was held in escrow until January 4, 2010 to reimburse the Buyer for payments to landlords for August, September and October, 2009 rents. The parties reconciled the actual amounts paid to the landlords for this period, with the Company reimbursing the Buyer the shortfall, \$523,000 (which was accrued upon the closing of the transaction), on January 4, 2010. In addition, \$1,893,000 will be held in escrow, representing the aggregate estimated amount of rent and additional rent payable for a limited period following the three-month payment period described above for leases guaranteed by the Company beyond the closing.

Man Alive's net assets primarily consisted of property and equipment of \$6,768,000 and inventory of \$5,961,000 as of February 28, 2009. The results of operations of Man Alive have been classified in discontinued operations for all periods presented. The financial results of the Man Alive operations, which are included in discontinued operations in the accompanying Consolidated Statements of Operations, were as follows (in thousands):

	Year Ended		
	February 27, 2010	February 28, 2009	March 1, 2008
Net sales	<u>\$ 10,925</u>	<u>\$ 67,606</u>	<u>\$ 76,299</u>
Loss from discontinued operations	\$ (23,911)	\$ (39,684)	\$(10,949)
Income tax benefit	8,672	13,319	4,318
Loss from discontinued operations, net of income tax benefit	<u>\$ (15,239)</u>	<u>\$ (26,365)</u>	<u>\$ (6,631)</u>

For 2010, the loss from discontinued operations of Man Alive included operating losses of \$5,627,000 as well as \$18,284,000 related to the loss on sale of Man Alive. The \$18,284,000 was made up of the \$7,705,000 Purchase Price Rebate, \$7,359,000 inventory write-off, \$6,726,000 property and equipment write-off and \$2,370,000 in other charges, partially offset by the reversal of "Deferred credits from landlords" of \$5,876,000. The \$18,284,000 loss was comprised of \$10,195,000 of cash payments and \$8,089,000 of non-cash net charges.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

For 2009 and 2008, the loss from discontinued operations of Man Alive included operating losses and \$26,470,000 and \$1,110,000 of pre-tax, non-cash impairment charges related to long-lived and intangible assets, respectively.

Based on the Purchase Agreement with the Buyer, the Company anticipates that all cash outlays related to deferred payments to Man Alive will be made by July 2010. The balance and net activity for the \$2,000,000 installment payment to the Buyer, which is included within “Other liabilities and accrued expenses,” are as follows (in thousands):

	<u>Installment Payment</u>
Balance at February 28, 2009	\$ —
Provision	2,000
Cash payments	<u>(1,333)</u>
Balance at February 27, 2010	<u>\$ 667</u>

Paiva

On August 27, 2007, the Board of Directors of the Company approved management’s recommendation to proceed with the closure of the Company’s Paiva stores. The Company notified affected employees of this decision on August 27, 2007. The decision to take this action resulted from a thorough assessment and analysis, which revealed the concept was not demonstrating the potential necessary to deliver an acceptable long-term return on investment. The Company closed all 15 Paiva stores and online business during the thirteen weeks ended December 1, 2007. The financial results of the Paiva operations, which are included in discontinued operations in the accompanying Consolidated Statements of Operations, were as follows (in thousands):

	<u>Year Ended</u>		
	<u>February 27, 2010</u>	<u>February 28, 2009</u>	<u>March 1, 2008</u>
Net sales	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 7,230</u>
Income (loss) from discontinued operations	\$ 163	\$ (475)	\$(20,526)
Income tax (expense) benefit	<u>(85)</u>	<u>196</u>	<u>8,216</u>
Income (loss) from discontinued operations, net of income tax (expense) benefit	<u>\$ 78</u>	<u>\$ (279)</u>	<u>\$ (12,310)</u>

For 2010 and 2009, the income (loss) from discontinued operations of Paiva primarily related to the true-ups of estimated lease termination payments. For 2008, the loss from discontinued operations of Paiva included operating losses as well as \$11,528,000 related to the impairment of long-lived assets and \$4,134,000 of lease expense resulting from \$5,287,000 of estimated future rent payments, including estimated lease termination payments, offset by \$1,153,000 of reversal of step rent and construction allowance liability previously included within “Deferred credits from landlords” on the Consolidated Balance Sheets.

Final cash payments related to future lease payments, including estimated lease termination payments, and repayment of unamortized construction allowances were paid in 2010. The Company does not anticipate any future cash payments.

THE FINISH LINE, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The balance and net activity for the estimated future lease payments, including estimated lease termination payments, which were included within “Other liabilities and accrued expenses,” are as follows (in thousands):

	<u>Lease Reserve</u>
Balance at March 1, 2008	\$ 1,574
Provision	515
Cash payments	<u>(1,702)</u>
Balance at February 27, 2009	387
Provision	<u>(60)</u>
Cash payments	<u>(327)</u>
Balance at February 27, 2010	<u>\$ —</u>

4. Debt Agreement

On February 18, 2010, the Company entered into an unsecured \$50,000,000 Revolving Credit Facility Agreement (the “2010 Credit Agreement”) with certain lenders, which expires on March 1, 2013. The 2010 Credit Agreement also provides that, under certain circumstances, the Company may increase the aggregate maximum amount of the credit facility by up to an additional \$50,000,000. The 2010 Credit Agreement will be used by the Company to issue letters of credit and could be used, among other things, to support working capital needs, fund capital expenditures and other general corporate purposes.

The 2010 Credit Agreement and related loan documents replace the Company’s prior credit facility dated as of February 25, 2005 and related loan documents, in each case as amended from time to time (collectively, the “Prior Credit Agreement”). All commitments under the Prior Credit Agreement were terminated effective February 18, 2010.

Approximately \$3,950,000 in stand-by letters of credit was outstanding as of February 27, 2010 under the 2010 Credit Agreement. No advances were outstanding under the 2010 Credit Agreement as of February 27, 2010. Accordingly, the total revolving credit availability under the 2010 Credit Agreement was \$46,050,000 as of February 27, 2010.

The Company’s ability to borrow monies in the future under the 2010 Credit Agreement is subject to certain conditions, including compliance with certain covenants and making certain representations and warranties. The 2010 Credit Agreement contains restrictive covenants that limit, among other things, mergers and acquisitions. In addition, the Company must maintain a minimum leverage ratio (as defined in the 2010 Credit Agreement) and minimum consolidated tangible net worth (as defined in the 2010 Credit Agreement). The Company was in compliance with all such covenants as of February 27, 2010.

To maintain availability of funds under the 2010 Credit Agreement, the Company will pay a 0.25% per annum commitment fee on the revolving credit commitments under the 2010 Credit Agreement.

The interest rates per annum applicable to amounts outstanding under the 2010 Credit Agreement at February 27, 2010 are, at the Company’s option, either (a) the Base Rate as defined in the 2010 Credit Agreement (the “Base Rate”) plus a margin of 0.75% per annum, or (b) the LIBOR Rate as defined in the 2010 Credit Agreement (the “LIBOR Rate”) plus a margin of 1.75% per annum. The margin over the Base Rate and the LIBOR Rate under the 2010 Credit Agreement may be adjusted quarterly based on the consolidated leverage ratio of the Company, as calculated pursuant to the 2010 Credit Agreement. The maximum margin over the Base

THE FINISH LINE, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Rate under the 2010 Credit Agreement will be 1.0% per annum; the maximum margin over the LIBOR Rate under the 2010 Credit Agreement will be 2.0% per annum. Interest payments under the Credit Agreement are due on the interest payment dates specified in the 2010 Credit Agreement.

The obligations under the 2010 Credit Agreement generally are unsecured, except that, upon a Collateralization Event (as defined in the 2010 Credit Agreement), the Company will be deemed to have granted a security interest in the Collateral (as defined in the 2010 Credit Agreement), subject to certain specified liens. In certain circumstances, such security interest may be released (and may subsequently spring back into effect) depending on whether the Collateralization Event is continuing (or a new Collateralization Event has occurred). No Collateralization Events occurred during 2010.

5. Leases

The Company leases retail stores under non-cancelable operating leases, which generally have lease terms ranging from five to ten years. Most of these lease arrangements do not provide for renewal periods. Many leases provide for contingent rents, 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. In addition to rent payments, these leases generally require the Company to pay real estate taxes, insurance, maintenance and other costs. The components of rent expense from continuing operations incurred under these leases are as follows (in thousands):

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Base rent, net of landlord deferred credits	\$82,136	\$83,880	\$83,757
Step rent	(1,105)	(653)	(932)
Contingent rent	1,555	1,774	1,627
Rent expense	<u>\$82,586</u>	<u>\$85,001</u>	<u>\$84,452</u>

A schedule of future base rent payments by fiscal year for signed operating leases at February 27, 2010 with initial or remaining non-cancelable terms of one year or more is as follows (in thousands):

2011	\$ 79,440
2012	69,079
2013	60,441
2014	53,332
2015	41,814
Thereafter	65,608
	<u>\$ 369,714</u>

This schedule of future base rent payments includes lease commitments for 6 new stores and three remodeled stores that were not open as of February 27, 2010.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

6. Income Taxes

The components of income taxes from continuing operations are as follows (in thousands):

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Currently payable:			
Federal	\$19,440	\$ (4,682)	\$ 20,692
State	<u>2,680</u>	<u>(192)</u>	<u>10,835</u>
	22,120	(4,874)	31,527
Deferred:			
Federal	(1,281)	21,485	(37,568)
State	<u>708</u>	<u>3,667</u>	<u>(7,572)</u>
	(573)	25,152	(45,140)
Total income tax expense (benefit) from continuing operations	<u>\$21,547</u>	<u>\$20,278</u>	<u>\$(13,613)</u>

Deferred income taxes reflect the net tax effects of temporary differences between the amount 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):

	<u>2010</u>	<u>2009</u>
Deferred tax assets:		
Deferred credits from landlords	\$16,249	\$21,272
Capital loss carryforward	—	6,546
Share-based compensation	5,298	5,030
Property and equipment	—	4,848
Compensation accrual	3,282	1,044
Other	<u>7,252</u>	<u>6,950</u>
Total gross deferred tax assets	32,081	45,690
Less valuation allowance	—	<u>(6,546)</u>
Net deferred tax assets	32,081	39,144
Deferred tax liabilities:		
Inventories	(6,334)	(8,327)
Property and equipment	(1,489)	—
Other	<u>(1,271)</u>	<u>(740)</u>
Total deferred tax liabilities	<u>(9,094)</u>	<u>(9,067)</u>
Net deferred tax asset	<u>\$22,987</u>	<u>\$30,077</u>

The valuation allowance of \$6,546,000 in 2009 relates to a deferred tax asset recorded for a capital loss carryforward. In assessing the realizability of the deferred tax asset related to the capital loss, the Company considered whether it was more likely than not to conclude that the deferred tax asset relating to the capital loss would ever be realized. The ultimate realization of the deferred tax asset relating to the capital loss carryforward was contingent upon the future generation of capital gain income during the 5-year carryforward period. Based on the level of historical capital gain income and estimates of future capital gain income at that time, the Company did not believe that it was more likely than not that the capital loss carryforward would be realized during the 5-year carryforward period. In 2010, the Company finalized a favorable agreement with the Internal Revenue Service regarding the income tax treatment of the terminated merger and litigation expenses which

THE FINISH LINE, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

allowed the Company to treat all of the terminated merger and litigation expenses as an ordinary deduction instead of a portion as an ordinary deduction and another portion as a capital loss. The Company determined that its previously classified capital loss carryforward would be recovered through operating income and the valuation allowance attributable to the capital loss was no longer necessary and was reversed in 2010.

The effective income tax rate related to continuing operations varies from the statutory federal income tax rate for 2010, 2009 and 2008 due to the following:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Tax (benefit) at statutory federal income tax rate	35.0%	35.0%	(35.0)%
State income taxes, net of federal benefit (expense)	1.9	4.1	(2.5)
Tax-exempt interest	(0.1)	(0.1)	(0.9)
Valuation allowance	(8.1)	—	10.5
Tax contingencies	0.7	0.3	3.5
Other	0.4	0.7	(0.1)
	<u>29.8%</u>	<u>40.0%</u>	<u>(24.5)%</u>

As of February 27, 2010, the Company has approximately \$19,362,000 of net operating loss carryforwards for state tax purposes. If not used, these carryforwards will expire between 2013 and 2029.

Payments (refunds) of income taxes for 2010, 2009 and 2008, equaled \$(10,993,000), \$2,374,000 and \$17,491,000, respectively.

The Company is subject to U.S. federal income tax as well as income tax by multiple state jurisdictions. The Company has substantially concluded all U.S. federal income tax matters through fiscal 2006 and all state and local income tax matters through fiscal 2000. The Company may resolve some or all of the issues related to tax matters and make payments to settle agreed upon liabilities.

Uncertain Tax Positions

As of February 27, 2010 and February 28, 2009, the Company had \$12,087,000 and \$14,820,000 of unrecognized tax benefits respectively, \$4,781,000 and \$5,580,000 respectively, of which, if recognized, would affect the effective income tax rate. Of the total unrecognized tax benefits as of February 27, 2010, it is reasonably possible that \$1,200,000 could change in 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 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 the matter is effectively settled with the tax authority.

The Company recognizes interest and penalties related to unrecognized tax benefits as components of income tax expense. In 2010, 2009 and 2008, \$398,000, \$245,000 and \$1,278,000, respectively, of interest and penalties were included in "Income tax expense (benefit)" on the Consolidated Statements of Operations. The Company has accrued \$2,832,000 and \$2,977,000 for the payment of interest and penalties as of February 27, 2010 and February 28, 2009, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

	2010	2009	2008
Unrecognized Tax Benefits at Beginning of Year	\$11,843	\$13,466	\$ 7,257
Increases in Tax Positions for Prior Years	3,163	181	2,475
Decreases in Tax Positions for Prior Years	(4,106)	(749)	(1,334)
Increases in Unrecognized Tax Benefits as a Result of Current Year Activity	489	136	5,661
Decreases to Unrecognized Tax Benefits Relating to Settlements with Taxing Authorities	(1,452)	(794)	(320)
Decreases to Unrecognized Tax Benefits as a Result of a Lapse of the Applicable Statute of Limitations	(682)	(397)	(273)
Unrecognized Tax Benefits at End of Year	<u>\$ 9,255</u>	<u>\$11,843</u>	<u>\$13,466</u>

7. Retirement Plan

The Company sponsors a defined contribution profit sharing plan, which covers substantially all employees who have completed one year of service. Contributions to this plan are discretionary and are allocated to employees as a percentage of each covered employee's wages. The plan also has a 401(k) feature whereby the Company matches employee contributions to the plan. Effective October 1, 2009, the Company changed its matching contribution from 100 percent of employee contributions to the plan up to three percent of an employee's wages to 50 percent of employee contributions to the plan up to six percent of an employee's wages. The Company's total expense charged to continuing operations for the plan in 2010, 2009 and 2008 amounted to \$2,250,000, \$2,029,000 and \$1,615,000, respectively.

The Company has a non-qualified deferred compensation plan for highly compensated employees whose contributions are limited under the qualified defined contribution plan. Amounts contributed and deferred under the deferred compensation plans are credited or charged with the performance of investment options offered under the plans and elected by the participants. In the event of bankruptcy, the assets of these plans are available to satisfy the claims of general creditors. The liability for compensation deferred under the Company's plans was \$788,000 and \$130,000 at February 27, 2010 and February 28, 2009, respectively, and is included in "Other long-term liabilities". Total expense from continuing operations recorded under these plans was \$84,000, \$39,000 and \$19,000 for 2010, 2009 and 2008, respectively.

8. Stock Plans

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. The Company's Board of Directors have reserved 6,500,000 shares of Class A and Class B Common Stock for issuance upon exercise of options or other awards under the option plan. The number of shares reserved for issuance of all awards other than options and stock appreciation rights, is limited to 2,500,000. Upon approval of the 2009 Incentive Plan, the 2002 Stock Incentive Plan of The Finish Line, Inc. (the "2002 Incentive Plan") is limited in future grants to awards from shares returned to the 2002 Incentive Plan by forfeiture after July 23, 2009.

Total share-based compensation expense charged to continuing operations in 2010, 2009 and 2008 was \$3,508,000, \$4,412,000 and \$6,123,000, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Stock Option Activity

Stock options have been granted to directors, officers and other key employees. Generally, options outstanding under the plans are exercisable at a price equal to the fair market value on the date of grant, vest over four years and expire ten years after the date of grant.

The estimated weighted-average fair value of the individual options granted during 2010, 2009 and 2008 was \$2.49, \$1.91 and \$3.94, respectively on the date of the grant. The fair values for all years were determined using a Black-Scholes option-pricing model with the following weighted average assumptions:

	2010	2009	2008
Dividend yield	2.18%	—	0.66%
Volatility	54.5%	47.9%	36.9%
Risk-free interest rate	1.69%	2.31%	4.49%
Expected life	4.5 years	4.6 years	4.5 years

The expected volatility assumption is based on the Company's analysis of historical volatility. The risk-free interest rate assumption is based upon 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 dividend yield assumption is based on the Company's history and expectation of dividend payouts. 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 and related information is as follows:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at February 28, 2009	3,222,930	\$ 10.58		
Granted	1,044,873	6.36		
Exercised	(327,310)	4.47		\$ 1,585,306
Forfeited	(155,066)	5.85		
Expired	(117,800)	14.94		
Outstanding at February 27, 2010	3,667,627	\$ 9.98	6.0	\$12,999,363
Exercisable at February 27, 2010	2,180,058	\$ 12.06	4.3	\$ 4,903,867

As of February 27, 2010, there was \$2,393,000 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 1.8 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 2010, 2009 and 2008 was \$1,585,000, \$144,000 and \$699,000, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table summarizes information concerning outstanding and exercisable options at February 27, 2010:

Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
\$ 1-\$ 5	572,420	7.0	\$ 4.43	203,420	\$ 4.28
\$ 5-\$10	1,534,373	6.5	6.53	631,198	6.80
\$10-\$15	653,894	6.1	12.96	518,100	13.21
\$15-\$25	906,940	4.6	17.17	827,340	17.28
	<u>3,667,627</u>	<u>6.0</u>	<u>\$ 9.98</u>	<u>2,180,058</u>	<u>\$ 12.06</u>

The Company recorded compensation expense related to stock options within continuing operations of \$1,268,000, \$1,865,000 and \$3,737,000 in 2010, 2009 and 2008, respectively.

Restricted Stock Activity

Beginning in 2006, the Company has granted certain key employees and directors shares of the Company's stock to be earned over time. The restricted stock was granted under the 2002 and 2009 Incentive Plans and generally cliff-vest after a three-year period. The Company recorded compensation expense related to restricted stock within continuing operations of \$2,174,000, \$2,474,000 and \$2,316,000 in 2010, 2009 and 2008, respectively.

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

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at February 28, 2009	799,982	\$ 8.40
Granted	221,128	8.45
Vested	(119,682)	14.60
Forfeited	(52,885)	6.42
Unvested at February 27, 2010	<u>848,543</u>	<u>\$ 7.66</u>

As of February 27, 2010, there was \$1,877,000 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 1.6 years. The total value of awards for which restrictions lapsed during 2010 was \$861,000.

Employee Stock Purchase Plan

In 2005, the Company adopted The Finish Line, Inc. Employee Stock Purchase Plan ("ESPP"). Under the ESPP, participating employees are able to contribute up to 10 percent of their annual compensation to acquire shares of common stock at 85 percent of the market price on a specified date each offering period. As of February 27, 2010, 2,400,000 shares of common stock were authorized for purchase under the ESPP, of which, 53,000, 73,000 and 92,000 shares were purchased during 2010, 2009 and 2008, respectively. The Company recognizes compensation expense based on the 15% discount at purchase. The Company recorded compensation expense related to the ESPP within continuing operations of \$66,000, \$73,000 and \$70,000 in 2010, 2009 and 2008, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

9. Earnings (Loss) Per Share

Basic earnings (loss) from continuing operations per share is calculated by dividing income (loss) from continuing operations associated with common shareholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per share 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 discussed in ASC 260-10, "Earnings Per Share".

On March 1, 2009, the Company adopted amendments to ASC 260-10, which impacted the determination and reporting of earnings per share by requiring the inclusion of restricted stock and performance restricted stock as participating securities, since they have the right to share in dividends, if declared, equally with common shareholders. During periods of net income, participating securities are allocated a proportional share of net income determined by dividing total weighted average participating securities by the sum of total weighted average common shares and participating securities ("the two-class method"). During periods of net loss, no effect is given to participating securities since they do not share in the losses of the Company. Participating securities have the effect of diluting both basic and diluted earnings per share during periods of net income.

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Income (loss) from continuing operations	\$50,833	\$30,402	\$(41,871)
Income from continuing operations attributable to participating securities	739	507	—
Income (loss) from continuing operations available to common shareholders	<u>\$50,094</u>	<u>\$29,895</u>	<u>\$(41,871)</u>
Basic earnings (loss) from continuing operations per share:			
Weighted-average number of common shares outstanding	54,221	53,846	47,196
Basic earnings (loss) from continuing operations per share	\$ 0.92	\$ 0.56	\$ (0.89)
Diluted earnings (loss) from continuing operations per share:			
Weighted-average number of common shares outstanding	54,221	53,846	47,196
Stock options(a)	376	262	—
Diluted weighted-average number of common shares outstanding	<u>54,597</u>	<u>54,108</u>	<u>47,196</u>
Diluted earnings (loss) from continuing operations per share	\$ 0.92	\$ 0.55	\$ (0.89)

(a) The computation of diluted earnings (loss) from continuing operations per share excludes options to purchase approximately 1.8 million, 2.1 million and 2.9 million shares of common stock in 2010, 2009 and 2008, respectively, because the impact of such options would have been antidilutive.

10. Common Stock

At February 27, 2010, shares of the Company's stock outstanding consisted of Class A and Class B Common Stock. Class A and Class B Common Stock have identical rights with respect to dividends and liquidation preference. However, Class A and Class B Common Stock differ with respect to voting rights, convertibility and transferability.

Holders of Class A Common Stock are entitled to one vote for each share held of record, and holders of Class B Common Stock are entitled to ten votes for each share held of record. The Class A Common Stock and the Class B Common Stock vote together as a single class on all matters submitted to a vote of shareholders

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(including the election of directors), except that, in the case of a proposed amendment to the Company's Articles of Incorporation that would alter the powers, preferences or special rights of either Class A Common Stock or the Class B Common Stock, the class of Common Stock to be altered shall vote on the amendment as a separate class. Shares of Class A and Class B Common Stock do not have cumulative voting rights.

While shares of Class A Common Stock are not convertible into any other series or class of the Company's securities, each share of Class B Common Stock is freely convertible into one share of Class A Common Stock at the option of the Class B Shareholders.

Shares of Class B Common Stock may not be transferred to third parties (except for transfer to certain family members of the holders and in other limited circumstances). All of the shares of Class B Common Stock are held by the founding shareholders, their family members, directors, officers and other key employees.

At the 2009 Annual Meeting of Shareholders of the Company held July 23, 2009 (the "Annual Meeting"), the Company's shareholders voted to amend and restate the Company's Restated Articles of Incorporation (as amended, the "Restated Articles") to effect a number of amendments relating to the Company's dual class stock structure. The main objective of the amendments effected by the Restated Articles is the transition to a more customary corporate governance structure for the Company.

The Restated Articles provide for the conversion of all outstanding high voting Class B Common Shares into Class A Common Shares as of the day after the Company's annual shareholders' meeting to be held in 2012, and eliminate the prior provision in the Company's restated articles of incorporation which automatically converted all Class B Common Shares into Class A Common Shares on a one-to-one basis only once they constituted less than 5% of the total common shares outstanding as of a record date for an annual meeting.

The Restated Articles also contain an amendment limiting the aggregate voting power of the Company's Class B Common Shares. Under this provision, if at any time the holders of all Class B Common Shares hold greater than 41% of the total voting power of the Company's shares as of the record date for any shareholders' meeting, then the number of votes per share of each holder of Class B Common Shares will automatically be reduced (on a proportionate basis) so that the holders of Class B Common Shares hold in the aggregate no more than 41% of the Company's total voting power. The Restated Articles further provide for the automatic conversion of Class B Common Shares issued to Company employees or directors into Class A Common Shares upon each such person's death or termination of employment or service.

At the Annual Meeting, the Company's shareholders also approved an amendment (the "Amendment") to the 2002 Stock Incentive Plan ("2002 Plan"). The Amendment adds the Company's Class B Common Shares as a class of stock that may be awarded under the 2002 Plan. Before the Amendment, the Company only was permitted to award Class A Common Shares under the 2002 Plan. The purpose of the Amendment is to permit the Board of Directors to allow the holders of any remaining unvested Class A Common Shares under the 2002 Plan to exchange those shares for an equal number of unvested Class B Common Shares, if authorized by the Board of Directors in the future, and allows the Company to replace any Class A Common Shares represented by outstanding awards that are forfeited in the future with Class B Common Shares. These are the only two scenarios under which Class B Common Shares may be issued under the 2002 Plan. Notwithstanding the approval of the Amendment by the Company's shareholders, the Board of Directors has no present intent to issue Class B Common Shares under the 2002 Plan, whether in exchange for any Class A Common Shares or otherwise.

Also at the Annual Meeting, the Company's shareholders approved and adopted The Finish Line, Inc. 2009 Incentive Plan (the "2009 Plan"), which was previously approved by the Company's Board of Directors. The

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

2009 Plan is an equity incentive plan that (i) allows the Company to make additional grants of restricted stock to participants since the Company has reached its limit on such grants under its 2002 Plan; (ii) provides the Company with the authority to make various other awards for up to 6,500,000 Class A Common Shares and Class B Common Shares (which are limited to 2,500,000 Class A Common Shares and Class B Common Shares for all awards other than options and stock appreciation rights); (iii) limits future grants under the 2002 Plan to awards from shares returned to the 2002 Plan by forfeiture after July 23, 2009 and allows the Company to offer the holders of unvested incentive stock awards under the 2002 Plan the right to exchange their Class A Common Shares for Class B Common Shares if authorized by the Board of Directors in the future; (iv) allows the Company to offer the holders of unvested incentive stock awards under the 2009 Plan the right to exchange their Class A Common Shares for Class B Common Shares if authorized by the Board of Directors in the future; and (v) permits the Company, at the discretion of the Compensation and Stock Option Committee of the Board of Directors, to grant awards that will comply with the requirements of Section 162(m) of the Code.

On July 17, 2008, the Company's Board of Directors authorized a new stock repurchase program to repurchase up to 5,000,000 shares of the Company's Class A common stock. Under the stock repurchase program, the Company may purchase shares through December 31, 2011. During 2010, the Company repurchased 1,389,713 shares of its Class A Common Stock at an average price of \$11.47 per share for an aggregate amount of \$15,936,000. The Company did not repurchase any shares under the stock repurchase program during 2009. As of February 27, 2010, the Company holds as treasury shares 6,171,125 shares of its Class A Common Stock at an average price of \$9.79 per share for an aggregate purchase amount of \$60,412,000. The treasury shares may be issued upon the exercise of employee stock options, issuance of shares for the Employee Stock Purchase Plan, issuance of restricted stock, or for other corporate purposes. Further purchases, if any, will occur from time to time, as market conditions warrant and as the Company deems appropriate when judged against other alternative uses of cash.

On July 22, 2004, the Company's Board of Directors instituted a quarterly cash dividend program of \$0.025 per share of Class A and Class B Common Stock. In light of the Merger Agreement entered into with Genesco on June 17, 2007, the Company decided to suspend future quarterly dividends beginning with the quarter ended September 1, 2007. On July 17, 2008, the Company's Board of Directors reinstated the quarterly cash dividend program with a 20% increase to \$0.03 per share of Class A and Class B common stock. On January 21, 2010, the Company's Board of Directors increased its quarterly cash dividend to \$0.04 per share of Class A and Class B common stock. The Company declared dividends of \$7,124,000, \$4,937,000 and \$1,193,000 during 2010, 2009 and 2008, respectively. As of February 27, 2010 and February 28, 2009, dividends declared but not paid were \$2,159,000 and \$1,645,000, respectively. Further declarations of dividends, if any, remain at the discretion of the Company's Board of Directors.

Pursuant to the Settlement Agreement entered into with UBS and Genesco (see Note 2 to the Consolidated Financial Statements), the Company issued 6,518,971 shares of the Company's Class A Common Stock (the "Shares") to Genesco on March 7, 2008. The Company filed a registration statement relating to the Shares with the Securities and Exchange Commission on April 4, 2008, which was declared effective on April 28, 2008. Genesco distributed the Shares to Genesco shareholders on June 13, 2008.

11. Impairment Charges

In the fourth quarter of 2010, 2009 and 2008, the Company recorded asset impairment charges from continuing operations of \$6,771,000 for 21 identified under-performing stores, \$6,118,000 for 17 identified under-performing stores and \$4,551,000 for 18 identified under-performing stores, respectively. The asset impairment review encompassed all stores open for at least two years with negative contribution and cash flows

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

as well as stores opened less than two years which had other events or changes in circumstances that indicated the store's assets may not be recoverable. The asset impairment charge was calculated as the difference between the carrying amount of the impaired assets and each impaired store's estimated future discounted cash flows.

12. 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 flow.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

13. Quarterly Financial Information (Unaudited)

	Quarter Ended							
	May 30, 2009		August 29, 2009		November 28, 2009		February 27, 2010	
	(Dollars in thousands, except per share data)							
Statement of Operations Data(a):								
Net sales(b)	\$259,096	100.0%	\$298,733	100.0%	\$240,056	100.0%	\$374,530	100.0%
Cost of sales (including occupancy costs)	182,722	70.5	203,364	68.1	169,144	70.5	238,326	63.6
Gross profit	76,374	29.5	95,369	31.9	70,912	29.5	136,204	36.4
Selling, general and administrative expenses	73,154	28.2	75,260	25.2	70,351	29.3	78,558	21.0
Store closing costs	231	0.1	1,381	0.4	535	0.2	560	0.2
Impairment charges	—	—	—	—	—	—	6,771	1.8
Operating income	2,989	1.2	18,728	6.3	26	—	50,315	13.4
Interest income, net	104	—	108	—	66	—	44	—
Income from continuing operations before income taxes	3,093	1.2	18,836	6.3	92	—	50,359	13.4
Income tax expense (benefit)(c)	1,334	0.5	7,088	2.4	(6,439)	(2.7)	19,564	5.2
Income from continuing operations	1,759	0.7	11,748	3.9	6,531	2.7	30,795	8.2
(Loss) income from discontinued operations, net of income tax	(2,367)	(0.9)	(12,622)	(4.2)	62	—	(234)	—
Net (loss) income	\$ (608)	(0.2)%	\$ (874)	(0.3)%	\$ 6,593	2.7%	\$ 30,561	8.2%
Income (loss) per diluted share:								
Income from continuing operations	\$ 0.03		\$ 0.21		\$ 0.12		\$ 0.56	
Loss from discontinued operations	(0.04)		(0.23)		—		(0.01)	
Net (loss) income	\$ (0.01)		\$ (0.02)		\$ 0.12		\$ 0.55	
Dividends declared per share	\$ 0.03		\$ 0.03		\$ 0.03		\$ 0.04	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	Quarter Ended							
	May 30, 2009		August 29, 2009		November 28, 2009		February 27, 2010	
	(Dollars in thousands, except per share data)							
Statement of Operations Data(a):								
Net sales	\$273,019	100.0%	\$337,000	100.0%	\$240,571	100.0%	\$344,067	100.0%
Cost of sales (including occupancy costs)	192,935	70.7	229,740	68.2	175,609	73.0	229,855	66.8
Gross profit	80,084	29.3	107,260	31.8	64,962	27.0	114,212	33.2
Selling, general and administrative expenses	75,905	27.8	82,762	24.6	75,566	31.4	77,778	22.6
Store closing costs	—	—	250	0.1	—	—	242	0.1
Terminated merger-related costs (income), net	38	—	45	—	23	—	(2,075)	(0.6)
Impairment charges	—	—	—	—	—	—	6,118	1.8
Operating income (loss)	4,141	1.5	24,203	7.1	(10,627)	(4.4)	32,149	9.3
Interest income, net	255	0.1	243	0.1	189	0.1	127	—
Income (loss) from continuing operations before income taxes	4,396	1.6	24,446	7.2	(10,438)	(4.3)	32,276	9.3
Income tax expense (benefit)	2,054	0.8	9,535	2.8	(3,935)	(1.6)	12,624	3.6
Income (loss) from continuing operations	2,342	0.8	14,911	4.4	(6,503)	(2.7)	19,652	5.7
Loss from discontinued operations, net of income tax benefit	(1,474)	(0.5)	(1,817)	(0.5)	(2,340)	(1.0)	(21,013)	(6.1)
Net income (loss)	\$ 868	0.3%	\$ 13,094	3.9%	\$ (8,843)	(3.7)%	\$ (1,361)	(0.4)%
Income (loss) per diluted share:								
Income (loss) from continuing operations	\$ 0.04		\$ 0.27		\$ (0.12)		\$ 0.36	
Loss from discontinued operations	(0.02)		(0.03)		(0.04)		(0.39)	
Net income (loss)	\$ 0.02		\$ 0.24		\$ (0.16)		\$ (0.03)	
Dividends declared per share	\$ —		\$ 0.03		\$ 0.03		\$ 0.03	

- (a) The financial results of Man Alive, which was discontinued in 2010, and Paiva, which was discontinued in 2008, are included in “loss from discontinued operations, net of income tax benefit” for all periods presented.
- (b) In the fourth quarter of 2010, the Company recorded revenue of \$2,622,000 relating to a change in estimate for gift card forfeitures.
- (c) In the third quarter of 2010, the Company recorded a \$6,546,000 tax benefit regarding the tax treatment of the terminated merger and litigation expenses.

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 merchandise sold and the lowest results of operations.

The table above sets forth quarterly operating data of the Company, including such data as a percentage of net sales, for 2010 and 2009. This quarterly information is unaudited but, in management’s opinion, reflects all adjustments, consisting only of normal recurring adjustments, other than those noted, necessary for a fair presentation of the information for the periods presented.

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Item 9—Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

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.

(c) 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.

(d) 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 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B—Other Information

None.

PART III

Item 10—Directors, Executive Officers and Corporate Governance

Except for information disclosed in Part I, Item 4.5 under the heading “Directors and 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 (the “2010 Proxy Statement”) to be filed with the Securities and Exchange Commission within 120 days of February 27, 2010, 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. It is available at 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 2010 Proxy Statement to be filed within 120 days of February 27, 2010, the Company’s most recent fiscal year-end.

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 2010 Proxy Statement to be filed within 120 days of February 27, 2010, the Company’s most recent fiscal year-end.

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 27, 2010:

<u>Plan Category</u>	(a) Number of shares to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted average exercise price of outstanding options, warrants and rights	(c) Number of shares remaining available for future issuance under equity compensation plans (excluding shares reflected in column (a))
Equity compensation plans approved by shareholders(1)	3,667,627	\$ 9.98	8,359,137
Equity compensation plans not approved by shareholders	—	—	—

(1) These shares are subject to awards made or to be made under the Company’s 1992 Employee Stock Incentive Plan, 2002 Stock Incentive Plan, 2009 Stock Incentive Plan, Non-Employee Director Stock Option Plan and Employee Stock Purchase Plan.

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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 caption “Executive Compensation—Related Party Transactions” and “Board of Directors, Committees and Meetings—Independence of Directors” in the 2010 Proxy Statement to be filed within 120 days of February 27, 2010, the Company’s most recent fiscal year-end.

Item 14—Principal Accountant Fees and Services

The information required by this Item is incorporated herein by reference to the information contained under the caption “Audit Committee Report—Independent Auditor Fee Information” and “Pre-Approval Policies and Proceedings” in the 2010 Proxy Statement to be filed within 120 days of February 27, 2010, the Company’s most recent fiscal year-end.

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PART IV

Item 15—Exhibits and Financial Statement Schedules

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

	<u>Page</u>
Report of Independent Registered Public Accounting Firm	32
Consolidated Balance Sheets as of February 27, 2010 and February 28, 2009	33
Consolidated Statements of Operations for the years ended February 27, 2010, February 28, 2009 and March 1, 2008	34
Consolidated Statements of Cash Flows for the years ended February 27, 2010, February 28, 2009 and March 1, 2008	35
Consolidated Statements of Changes in Shareholders' Equity for the years ended February 27, 2010, February 28, 2009 and March 1, 2008	36
Notes to Consolidated Financial Statements-February 27, 2010	37-59

(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

<u>Exhibit Number</u>	<u>Description</u>
2.1	Definitive Merger Agreement with Genesco dated June 17, 2007.(11)
2.2	Amended Commitment Letter.(12)
2.3	Asset Purchase Agreement, dated June 21, 2009 by and among The Finish Line Man Alive, Inc., The Finish Line, Inc., Man Alive Acquisitions, LLC, and the other entities listed therein.(22)
3.1	Restated Articles of Incorporation of The Finish Line, Inc., amended and restated as of July 23, 2009.(23)
3.2	Bylaws of The Finish Line, Inc., amended as of July 23, 2009.(24)
4.1	1992 Employee Stock Incentive Plan of The Finish Line, Inc., as amended and restated.(1)*
4.2	2002 Stock Incentive Plan of The Finish Line, Inc. (as amended and restated July 21, 2005).(2)*
4.3	Amendment No. 1 to the 2002 Stock Incentive Plan of The Finish Line, Inc. (as amended and restated July 21, 2005).(10)*
4.4	Amendment No. 2 to the 2002 Stock Incentive Plan of The Finish Line, Inc. (as amended and restated July 21, 2005).(15)*
4.5	Amendment No. 3 to the 2002 Stock Incentive Plan of The Finish Line, Inc. (as amended and restated July 21, 2005).(25)*
4.6	The Finish Line, Inc. 2009 Incentive Plan.(28)*
10.1	Form of Incentive Stock Option Agreement pursuant to the 1992 Employee Stock Incentive Plan.(3)*
10.2	Form of Non-Qualified Stock Option Agreement pursuant to the 1992 Employee Stock Incentive Plan.(4)*

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<u>Exhibit Number</u>	<u>Description</u>
10.3	Form of Award Agreement for Employees and Employee Directors pursuant to the 2002 Employee Stock Incentive Plan.(5)*
10.4	Form of Award Agreement for Nonemployee Directors pursuant to the 2002 Employee Stock Incentive Plan.(6)*
10.5	Form of Non-Qualified Option Award Letter for Employees and Employee Directors pursuant to the 2002 Employee Stock Incentive Plan. (7)*
10.6	Form of Non-Qualified Option Award Letter for Nonemployee Directors pursuant to the 2002 Employee Stock Incentive Plan.(8)*
10.7	Form of Incentive Stock Award Letter pursuant to the 2002 Employee Stock Incentive Plan.(9)*
10.8	Form of Indemnity Agreement between The Finish Line Inc. and each of its Directors or Executive Officers.
10.9	The Finish Line, Inc. Non-Employee Director Stock Option Plan, as amended and restated.*
10.10	The Finish Line, Inc. Employee Stock Purchase Plan.*
10.11	Settlement Agreement among The Finish Line, Inc., Genesco Inc., UBS Securities LLC and UBS Loan Finance LLD dated March 3, 2008.(14)
10.12	The Finish Line, Inc. Non-Qualified Deferred Compensation Plan.(13)*
10.13	Retirement Agreement between The Finish Line, Inc. and Alan H. Cohen.(16)*
10.14	Amended and Restated Employment Agreement of Glenn S. Lyon, dated as of December 31, 2008.(17)*
10.15	Amended and Restated Employment Agreement of Steven J. Schneider, dated as of December 31, 2008.(18)*
10.16	Amended and Restated Employment Agreement of Gary D. Cohen, dated as of December 31, 2008.(19)*
10.17	Employment Agreement of Edward W. Wilhelm, dated as of March 30, 2009.(20)*
10.18	Amendment No. 1 to The Finish Line, Inc. Non-Qualified Deferred Compensation Plan.(21)*
10.19	Form of The Finish Line, Inc. 2009 Incentive Plan Non-Qualified Stock Option Award Agreement.(26)*
10.20	Form of The Finish Line, Inc. 2009 Incentive Plan Restricted Stock Award Agreement.(27)*
10.21	Revolving Credit Facility Credit Agreement, dated as of February 18, 2010, 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. and Paiva, LLC as guarantors, certain lenders and PNC Bank, National Association, as Administrative Agent.(29)
10.22	Continuing Agreement of Guaranty And Suretyship – Subsidiaries, dated as of February 18, 2010, by The Finish Line MA, Inc. and Paiva, LLC in favor of the lenders named therein.(30)
10.23	Amendment No. 1 to the Amended and Restated Employment Agreement for Mr. Steven Schneider.(31)*

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<u>Exhibit Number</u>	<u>Description</u>
10.24	Amendment No. 1 to the Amended and Restated Employment Agreement for Mr. Glenn Lyon.(32)*
10.25	Amendment No. 1 to the Amended and Restated Employment Agreement for Mr. Gary Cohen.(33)*
10.26	Form of Restricted Stock Award Agreement for Time Based Vesting.(34)*
10.27	Form of Restricted Stock Award Agreement for Performance Based Vesting.(35)*
10.28	Amendment No. 1 to The Finish Line, Inc. 2009 Incentive Plan.*
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.
(1)	Previously filed as Exhibit 10.28 to the Registrant’s Annual Report on Form S-8 (File No. 333-62063) and incorporated herein by reference.
(2)	Previously filed as Appendix A of the Registrant’s Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on June 17, 2005 and incorporated herein by reference.
(3)	Previously filed as Exhibit 10.6.2 to the Registrant’s Registration Statement on Form S-1 and amendments thereto (File No. 33-47247) and incorporated herein by reference.
(4)	Previously filed as Exhibit 10.6.3 to the Registrant’s Registration Statement on Form S-1 and amendments thereto (File No. 33-47247) and incorporated herein by reference.
(5)	Previously filed as Exhibit 10.1 of the Registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on July 28, 2005 and incorporated herein by reference.
(6)	Previously filed as Exhibit 10.2 of the Registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on July 28, 2005 and incorporated herein by reference.
(7)	Previously filed as Exhibit 10.3 of the Registrant’s Current Report on Form 8-K with the Securities and Exchange Commission on July 28, 2005 and incorporated herein by reference.
(8)	Previously filed as Exhibit 10.4 of the Registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on July 28, 2005 and incorporated herein by reference.
(9)	Previously filed as Exhibit 10.5 of the Registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on July 28, 2005 and incorporated herein by reference.
(10)	Previously filed as Exhibit 4.3 to the Registrant’s Annual Report on Form 10-K for the year ended March 3, 2007 and incorporated herein by reference.
(11)	Previously filed as Exhibit 2.1 of the Registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on June 18, 2007 and incorporated herein by reference.
(12)	Previously filed as Exhibit 2.1 of the Registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 15, 2007 and incorporated herein by reference.
(13)	Previously filed as Exhibit 10.1 of the Registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 4, 2007 and incorporated herein by reference.
(14)	Previously filed as Exhibit 10.1 to the Registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 4, 2008 and incorporated herein by reference.
(15)	Previously filed as Appendix A of the Registrant’s Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on June 17, 2008 and incorporated herein by reference.

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- (16) Previously filed as Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 2, 2008 and incorporated herein by reference.
- (17) Previously filed as Exhibit 10.1 of the Registrant's Current Report on Form 8-K/A filed with the Securities and Exchange Commission on December 31, 2008 and incorporated herein by reference.
- (18) Previously filed as Exhibit 10.2 of the Registrant's Current Report on Form 8-K/A filed with the Securities and Exchange Commission on December 31, 2008 and incorporated herein by reference.
- (19) Previously filed as Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 31, 2008 and incorporated herein by reference.
- (20) Previously filed as Exhibit 10.1 of the Registrant's Current Report on Form 8-K/A filed with the Securities and Exchange Commission on April 14, 2009 and incorporated herein by reference.
- (21) Previously filed as Exhibit 10.24 to the Registrant's Annual Report on Form 10-K for the year ended February 28, 2009 and incorporated herein by reference.
- (22) Previously filed as Exhibit 2.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 22, 2009 and incorporated herein by reference.
- (23) Previously filed as Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 23, 2009 and incorporated herein by reference.
- (24) Previously filed as Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 24, 2009 and incorporated herein by reference.
- (25) Previously filed as Exhibit 10.4 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 23, 2009 and incorporated herein by reference.
- (26) Previously filed as Exhibit 10.2 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 23, 2009 and incorporated herein by reference.
- (27) Previously filed as Exhibit 10.3 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 23, 2009 and incorporated herein by reference.
- (28) Previously filed as Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 23, 2009 and incorporated herein by reference.
- (29) Previously filed as Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 22, 2010 and incorporated herein by reference.
- (30) Previously filed as Exhibit 10.2 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 22, 2010 and incorporated herein by reference.
- (31) Previously filed as Exhibit 99.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 2, 2010 and incorporated herein by reference.
- (32) Previously filed as Exhibit 99.2 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 2, 2010 and incorporated herein by reference.
- (33) Previously filed as Exhibit 99.3 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 2, 2010 and incorporated herein by reference.
- (34) Previously filed as Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 11, 2010 and incorporated herein by reference.
- (35) Previously filed as Exhibit 10.2 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 11, 2010 and incorporated herein by reference.

* Management contract or compensatory plan, contract or arrangement.

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Date: May 6, 2010

/s/ CATHERINE LANGHAM

Catherine Langham, Director

Date: May 6, 2010

/s/ DOLORES KUNDA

Dolores Kunda, Director

Date: May 6, 2010

/s/ NORMAN GURWITZ

Norman Gurwitz, Director

Date: May 6, 2010

/s/ RICHARD CRYSTAL

Richard Crystal, Director

Date: May 6, 2010

/s/ MARK LANDAU

Mark Landau, Director

Exhibit Index

<u>Exhibit Number</u>	<u>Description</u>
10.8	Form of Indemnity Agreement between The Finish Line, Inc. and each of its Directors or Executive Officers.
10.9	The Finish Line, Inc. Non-Employee Director Stock Option Plan, as amended and restated.*
10.10	The Finish Line, Inc. Employee Stock Purchase Plan.*
10.28	Amendment No. 1 to The Finish Line, Inc. 2009 Incentive Plan.*
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 Rule 15d-14(a) of the Securities Exchange Act, as amended.
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) and Rule 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.
*	Management contract or compensatory plan, contract or arrangement.

INDEMNITY AGREEMENT

This Indemnity Agreement (this “**Agreement**”) is entered into effective as of [date], between The Finish Line, Inc., an Indiana corporation (“**Finish Line**”) and the person who has executed this Agreement as “**Indemnitee**.”

RECITALS

1. Indemnitee is currently serving as a director or officer of Finish Line and/or, at the Finish Line’s request, as a director, officer, manager, member, employee and/or agent of another corporation, partnership, joint venture, limited liability company, trust, employee benefit or other similar plan, or other enterprise, and Finish Line wishes Indemnitee to continue in such capacity(ies);
2. The Restated Articles of Incorporation (the “**Restated Articles of Incorporation**”) and the Bylaws (the “**Bylaws**”) of Finish Line each provide that Finish Line shall indemnify, in the manner and to the fullest extent permitted by the Indiana Business Corporation Law (the “**IBCL**”), certain persons, including directors and officers against specified expenses and losses arising out of certain threatened, pending or completed actions, suits or proceedings;
3. Indemnitee has indicated that he or she may not be willing to continue to serve as a director, officer, employee and/or agent of Finish Line and/or, at Finish Line’s request, as a director, officer, manager, member, employee and/or agent of another corporation, partnership, joint venture, limited liability company, trust or other enterprise in the absence of indemnification in addition to that provided in the Restated Articles of Incorporation and Bylaws of Finish Line;
4. Finish Line is aware that competent and experienced people are increasingly reluctant to serve as directors or officers of corporations unless they are protected by director and officer liability insurance and/or indemnification, due to the increasing amount of litigation against directors and officers and the increasing expense of defending those claims;
5. It is essential that Finish Line retain and attract as directors and officers the most capable and qualified persons available;
6. In order to induce Indemnitee to continue to serve, Finish Line has agreed to provide Indemnitee with the benefits contemplated by this Indemnity Agreement, and, as a result, Indemnitee has agreed to continue to serve Finish Line; and
7. The Restated Articles of Incorporation and Bylaws expressly recognize that the indemnification provisions of the Restated Articles of Incorporation and Bylaws shall not be deemed exclusive of, and shall not affect, any other rights to which a person seeking indemnification may be entitled under any agreement, and this Indemnity Agreement is being entered into pursuant to the Restated Articles of Incorporation and Bylaws as permitted by the IBCL, and as authorized by the shareholders of Finish Line; and
8. Finish Line and Indemnitee recognize the public policy of Indiana that indemnification should be liberally permitted and intend that this Indemnity Agreement be liberally construed in favor of indemnification.
9. Indemnitee and Finish Line are parties to an Indemnity Agreement dated (the “**Prior Agreement**”). This Agreement amends and restates the Prior Agreement and any Claims shall be governed by this Agreement.

Now, Therefore, in consideration of the premises and of Indemnitee’s continuing to provide valuable services to Finish Line directly or indirectly (including any services Indemnitee may provide at its request to any Other Entity), and intending to be legally bound hereby, the parties agree as follows:

Section 1. **Indemnification and Advance of Expenses.** Subject to the terms, conditions and limitations of this Agreement, Finish Line shall be obligated, in connection with any Claim (i) to indemnify and hold harmless Indemnitee from and against any and all Expenses and Losses, and (ii) to advance any and all Expenses to Indemnitee.

Section 2. **Specific Limitations; Mandatory Indemnification.**

(a) Unless otherwise determined by a court in litigation in accordance with Section 4, Indemnitee shall not be entitled to indemnification or advance of Expenses, and shall reimburse Finish Line for all such amounts theretofore paid or advanced by Finish Line, to the extent that a Reviewing Party has determined that the Expenses or Losses for which indemnification is sought arise out of, or were based upon, a Claim in connection with which Indemnitee failed to meet the Standard of Conduct. In the absence of a determination by a Reviewing Party or a court, Indemnitee shall be conclusively presumed to have met the Standard of Conduct. The termination of a proceeding by judgment, order, settlement or conviction, or upon plea of *nolo contendere* or its equivalent, shall not of itself be determinative that Indemnitee did not meet the Standard of Conduct.

(b) Notwithstanding anything to the contrary in this Agreement, and regardless of whether Indemnitee met the Standard of Conduct, Finish Line shall indemnify and hold harmless Indemnitee from and against any and all Expenses relating to any Claim in the defense of which Indemnitee is wholly successful, on the merits or otherwise. Finish Line and Indemnitee acknowledge and agree that this Agreement may provide for indemnification of Indemnitee even in circumstances involving his own negligence or higher level of culpability, unless indemnification in such circumstances is found by a court to conflict with law or a Public Policy.

Section 3. **Procedure for Indemnification and Advance of Expenses.**

(a) Indemnitee shall present any claim for indemnification, and may present a claim for advance of Expenses, in each case by presenting written demand therefore to Finish Line and, in the case of advance of Expenses: (i) be accompanied by or preceded by: (y) the written affirmation of the Indemnitee's good faith belief that the Indemnitee has met the Standard of Conduct; and (z) an unconditional written undertaking by or on his or her behalf to repay the amount to Finish Line if it shall ultimately be determined that he or she is not entitled to be indemnified by the Finish Line as authorized in this Agreement; and (ii) no Reviewing Party has determined that the Expenses sought to be advanced arise out of, or were based upon, a Claim in which the Indemnitee failed to meet the Standard of Conduct. Finish Line shall pay or advance Expenses to Indemnitee on the basis of Indemnitee's written demand (i) in the case of indemnification, as soon as practicable but in any event no later than thirty (30) days after the written demand is presented, and (ii) in the case of advance of Expenses, within five (5) business days after the written demand is presented.

(b) If Indemnitee is entitled under any provision of this Agreement to indemnification by Finish Line for some or a portion, but not the total amount, of the Losses or Expenses for which payment has been demanded, Finish Line shall indemnify Indemnitee for the portion of the Losses or Expenses as to which Indemnitee is entitled to indemnification.

Section 4. **Enforcement Proceedings.**

(a) If any Reviewing Party determines that Indemnitee is not entitled, in whole or in part, to indemnification under this Agreement, Indemnitee shall have the right, without prejudice by virtue of such determination, to institute legal proceedings seeking to enforce his or her claim for indemnification under this Agreement in any court of competent jurisdiction.

(b) In any such proceedings, Finish Line shall have the burden of proving that (i) Indemnitee's conduct did not meet the Standard of Conduct, and (ii) Indemnitee is not otherwise fairly and reasonably entitled to indemnification without regard to the Standard of Conduct, or (iii) such indemnification would be unlawful or would contradict a Public Policy. If Finish Line fails to sustain its burden of proof, Indemnitee shall be entitled to indemnification from Finish Line under this Agreement.

(c) If Indemnitee has commenced legal proceedings seeking to enforce a claim for indemnification, Indemnitee shall not be required to make reimbursement to Finish Line and may continue to be entitled to further advances of Expenses (including the expenses of such proceedings), until a final judicial determination adverse to Indemnitee's position, as to which all rights of appeal have been exhausted or have lapsed, has been made.

(d) If legal proceedings are not commenced by Indemnitee within sixty (60) days after Indemnitee's receipt of written notice of the Reviewing Party's determination that Indemnitee is not entitled to indemnification under this Agreement, the determination by the Reviewing Party shall be conclusive and binding on Finish Line and Indemnitee.

Section 5. **Selection of Independent Special Counsel.**

(a) If all of the directors of Finish Line are parties to, or interested in, the Claim, or if there has been a change in control of Finish Line within the two years preceding the date upon which identity of the Reviewing Party is determined, then only independent special counsel, which shall not otherwise have performed services for Indemnitee or Finish Line, may act as a Reviewing Party. Independent special counsel may also serve as a Reviewing Party if Indemnitee and another Reviewing Party so agree.

(b) Independent special counsel shall be selected by Indemnitee, subject to the approval (which shall not unreasonably be withheld) of (i) a committee designated in accordance with Section 7(f)(ii) (a “**Committee**”), or (ii) if a Committee cannot be so designated, by a majority of the entire board of directors of Finish Line (including interested directors), or (iii) if such counsel is being engaged because Indemnitee and another Reviewing Party have so agreed, by such other Reviewing Party.

(c) Finish Line agrees to pay the reasonable fees and expenses of independent special counsel and, unless prohibited by applicable law, fully to indemnify and hold harmless that counsel from and against any and all Losses and Expenses arising out of or relating to its engagement pursuant to this Agreement.

Section 6. **Insurance.** If and to the extent Finish Line at any time maintains insurance providing directors’ and officers’ liability insurance coverage, Indemnitee shall be covered by such insurance, in accordance with its terms, to the maximum extent of the coverage available for any of the Corporations’ directors or officers.

Section 7. **Definitions.** As used in this Agreement, the following terms have the following meanings:

(a) “**Claim**” means and includes any actual or threatened, pending or completed action, suit or proceeding, or any inquiry or investigation (whether conducted by or on behalf of Finish Line, its shareholders, or any other party) that Indemnitee in good faith believes may lead to the institution of any action, suit or proceeding (whether civil, criminal, administrative, investigative or other), arising out of or in connection with any event or occurrence related to Indemnitee’s service or capacity as a director or officer of Finish Line, or his or her service at the request of Finish Line as a director, officer, manager, member, trustee, agent or fiduciary of any Other Entity, provided that such claim is not for an accounting of profits made from the purchase or sale by Indemnitee of securities of Finish Line within the meaning of Section 16(b) of the Securities Exchange Act of 1934, as amended, or similar provisions of any state law.

(b) “**Expenses**” means and includes attorneys’ fees and all other costs, expenses and obligations paid or incurred in connection with investigating, defending, being a witness in or participating in (including on appeal), or preparing to defend, be a witness in, or participate in, any Claim or any proceeding instituted pursuant to Section 4.

(c) “**Losses**” means and includes any judgments, fines, penalties and amounts paid in settlement or discharge, including all costs, interest assessments and other charges paid or payable in connection with any of the foregoing, that are imposed in connection with or arise out of a Claim, and for which the Indemnitee has not otherwise been reimbursed.

(d) “**Other Entity**” means and includes any corporation, partnership, joint venture, limited liability company, employee benefit or similar plan, trust or other enterprise or legal entity (whether or not for profit) other than Finish Line.

(e) “**Public Policy**” means a specific public policy of the State of Indiana against which Indemnitee seeks to enforce an obligation to indemnify him or her under this Agreement, which policy has direct bearing on the issue of enforcement of that obligation under the circumstances in question, and is of such predominant import as to override (i) the public policy favoring enforcement of the obligation to assist companies such as Finish Line in attracting competent and qualified persons to serve as directors or officers, (ii) the public policy and rule of law favoring non-interference with private contractual rights negotiated in good faith and at arms’ length, and (iii) other policies and rules of law favoring or requiring enforcement, including all specific statutory authorizations of corporate undertakings of indemnity such as those contained in this Agreement.

(f) “**Reviewing Party**” means (i) a majority of a quorum of the board of directors of Finish Line, or (ii) if a quorum cannot be obtained under subdivision (i) of Section 7(f), a majority of a committee duly designated by the board of directors of Finish Line (in which designation directors who are parties to, or interested in, the Claim may participate), consisting solely of two (2) or more directors who are not parties to or interested in the Claim, or (iii) independent special counsel selected in accordance with Section 5(b).

(g) The “**Standard of Conduct**” shall be deemed to have been met or satisfied by Indemnitee if:

(i) Indemnitee’s conduct was in good faith; and

(ii) Indemnitee reasonably believed his or her conduct was in the best interests of Finish Line or was at least not opposed to the best interests of Finish Line; and

(iii) In the case of any criminal proceeding, Indemnitee either (A) had reasonable cause to believe his or her conduct was lawful, or (B) had no reasonable cause to believe his or her conduct was unlawful.

Indemnitee’s conduct with respect to an employee benefit or similar plan, for a purpose he or she reasonably believed to be in the interests of the participants in or beneficiaries of such plan, shall also be deemed to meet or satisfy the Standard of Conduct.

Section 8. **No Modification or Waiver.** This Agreement may not be amended, changed, supplemented or modified except by a subsequent writing signed by all of the parties. No waiver of any provision of this Agreement shall be valid unless the waiver is in writing and is signed by the party against whom it is sought to be enforced; nor shall any waiver of any provision of this Agreement constitute or be construed as a continuing waiver, or a waiver of any other provision of this Agreement (whether similar or not). The failure of any party at any time to insist upon strict performance by any other party of any provision of this Agreement shall not constitute or be construed as a waiver of the right to insist upon strict performance in the future of such provision or any other provision.

Section 9. **Notification and Defense of Claim.** Promptly after receipt by Indemnitee of notice of the commencement of any action, suit or proceeding that may constitute a Claim under this Agreement, Indemnitee will, if a claim for indemnification or advance of Expenses in respect thereof is to be made against Finish Line under this Agreement, notify Finish Line of the commencement thereof. After that notification to Finish Line:

(a) Finish Line will be entitled to participate in the defense of the action, suit or proceeding at its own expense;

(b) Unless Indemnitee shall have reasonably concluded that there may be a conflict of interest between Finish Line and the Indemnitee in the conduct of the defense of the action, Finish Line will be entitled to assume the defense of such action, suit or proceeding for Indemnitee, with counsel reasonably satisfactory to Indemnitee;

(c) Indemnitee shall have the right to employ his own counsel in the action, suit or proceeding, but the fees and expenses of his or her counsel incurred after notice from Finish Line of its assumption of the defense thereof shall be at the expense of Indemnitee unless (A) the employment of counsel by Indemnitee has been authorized, or the defense of Indemnitee is not permitted to be undertaken, by Finish Line, or (B) Finish Line shall in fact have employed counsel to assume Indemnitee's defense;

(d) Finish Line shall not be liable to indemnify the Indemnitee under this Agreement for any amounts paid by the Indemnitee, without the written consent of Finish Line (which consent shall not unreasonably be withheld), in settlement of such action, suit or proceeding or any claim therein;

(e) Finish Line shall not be liable to indemnify the Indemnitee under this Agreement for any amounts paid by the Indemnitee arising out of or in connection with an accounting of profits made from the purchase or sale by Indemnitee of securities of Finish Line within the meaning of Section 16(b) of the Securities Exchange Act of 1934, as amended, or similar provisions of any state law; and

(f) Finish Line shall not, without the written consent of Indemnitee (which consent shall not unreasonably be withheld), settle any such action, suit or proceeding or any claim therein in any manner that would impose any penalty, liability or limitation on, or otherwise be materially adverse to the interests of, Indemnitee.

Section 10. **Non-Exclusivity.** The rights of Indemnitee under this Agreement shall not be deemed exclusive of or limited by any other substantive or procedural rights or presumptions under Finish Line's Restated Articles of Incorporation or Bylaws, its other controlling instruments and governing corporate statutes, or otherwise (collectively, "**Governing Documents and Laws**"). To the extent that, at any time during the period when this Agreement is in effect, the rights under Governing Documents and Laws of the then existing directors and officers with respect to indemnification and advance of Expenses are more favorable to the directors or officers than the rights currently provided thereunder or under this Agreement to Indemnitee, Indemnitee shall be entitled to the full benefits of those more favorable rights.

Section 11. **Binding Effect.** This Agreement shall be binding upon, inure to the benefit of and be enforceable by the parties and their respective assigns, successors in interest (including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business or assets of Finish Line), spouses, heirs and personal and legal representatives.

Section 12. **Separability.** Each and every paragraph, sentence, term and provision of this Agreement is separate and distinct. If any such paragraph, sentence, term or provision shall be held invalid or unenforceable for any reason, such invalidity or unenforceability shall not affect the validity or enforceability of any other paragraph, sentence, term or provision of this Agreement. Any paragraph, sentence, term or provision of this Agreement may be modified by a court of competent jurisdiction to the extent required to preserve its validity and enforceability, and to provide Indemnitee with the broadest possible indemnification permitted under law.

Section 13. **Savings Clause.** If this Agreement or any paragraph, sentence, term or provision hereof is invalidated on any ground by any court of competent jurisdiction, the Corporations shall nevertheless indemnify Indemnitee as to any Losses and Expenses incurred with respect to any Claim to the full extent permitted by (i) any applicable paragraph, sentence, term or provision of this Agreement that has not been invalidated, and (ii) any applicable provision of any Governing Documents or Laws.

Section 14. **Notices.** All notices and other communications required or permitted under this Agreement shall be in writing, and shall be served personally on, or mailed by certified or registered United States mail to, the party to be charged with receipt thereof. Notices and other communications served by mail shall be deemed received seventy-two (72) hours after deposit of such notice or communication with the United States as certified or registered mail, postage prepaid and duly addressed (i) if to Finish Line, to its registered office, marked to the attention of the General Counsel, and (ii) if to Indemnitee, to the address set forth beneath his signature to this Agreement. Any party may change its or his address for purposes of this Paragraph by giving to the party intended to be bound thereby, in the manner provided herein, a written notice of such change.

Section 15. **Governing Law.** This Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of Indiana without reference to the choice of law principles.

Section 16. **Counterparts.** This Agreement may be executed in one or more counterparts, each of which shall be an original, but all of which together shall constitute but one and the same Agreement.

In Witness Whereof, Finish Line and Indemnitee have executed this Agreement this day of , 2004.

THE FINISH LINE, INC.

By: _____
Printed: _____
Title: _____

INDEMNITEE

Printed: _____
Title: _____
Address: _____

THE FINISH LINE, INC.
NON-QUALIFIED STOCK OPTION AGREEMENT
Pursuant to the
NON-EMPLOYEE DIRECTOR STOCK OPTION PLAN

This Non-Qualified Stock Option Agreement (“Agreement”) is made and entered into as the Date of Grant indicated below by and between The Finish Line, Inc., a Delaware corporation (the “Company”), and the person named below as Optionee.

WHEREAS, Optionee is a non-employee director (“Non-Employee Director”) of the Company; and

WHEREAS, pursuant to the Company’s Non-Employee Director Stock Option Plan (the “Plan”), an option to purchase shares of the Class A Common, \$.01 par value, of the Company (the “Class A Common Shares”), has been granted to Optionee on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing recitals and the covenants set forth herein, the parties hereto hereby agree as follows:

1. **Grant of Option; Certain Terms and Conditions.** The Company hereby grants to Optionee, and Optionee hereby accepts, as of the Date of Grant indicated below, an option (the “Option”) to purchase the number of Class A Common Shares indicated below (the “Option Shares”) at the Exercise Price per share indicated below. The Option shall expire at 5:00 p.m., Indianapolis time, on the Expiration Date indicated below and shall be subject to all of the terms and conditions set forth in this Agreement.

Optionee:

Date of Grant:

Number of Class
A Common Shares
Purchasable:

Exercise Price
Per Share:

Expiration Date:

Vesting Rate:

2. Non-Qualified Stock Option.

The Option is not intended to qualify as an incentive stock option under Section 422 of the Internal Revenue Code (the "Code").

3. Acceleration and Termination of Option.

(a) Termination of Directorship Status. If Optionee ceases to be a Non-Employee Director for any reason, then the Option shall terminate on the earlier of the Expiration Date or the first anniversary of the date upon which Optionee ceases to be a Non-Employee Director.

(b) Death Following Termination. Notwithstanding anything to the contrary in this Agreement, if Optionee shall die at any time after the date on which he ceases to be a Non-Employee Director and prior to the Expiration Date, then, the remaining vested but unexercised portion of this Option shall terminate on the earlier of the Expiration Date or the first anniversary of the date of such death.

(c) Acceleration of Option. The Option shall become fully exercisable immediately prior to a Change in Control. A Change in Control shall mean: a reorganization, merger (not including a merger to effectuate a reincorporation of the Company) or consolidation of the Company as a result of which the outstanding securities of the class then subject to the Plan are exchanged for or converted into cash, property an/or securities not issued by the Company, unless such reorganization, merger or consolidation shall have been affirmatively recommended to the stockholders of the Company by the Board.

(d) Termination of Option. The Option shall terminate upon the occurrence of a Termination Event. A Termination Event shall mean either:

(i) the dissolution or liquidation of the Company;

(ii) a reorganization, merger (not including a merger to effectuate a reincorporation of the Company) or consolidation of the Company as a result of which the outstanding securities of the class then subject to the Plan are exchanged for or converted into cash, property and/or securities not issued by the Company, which reorganization, merger or consolidation shall have been affirmatively recommended to the stockholders of the Company by the Board, unless the terms of such reorganization, merger or consolidation shall provide otherwise; or

(iii) a sale of all or substantially all of the property and assets of the Company, unless the terms of such sale shall provide otherwise.

4. Adjustments. In the event that the Class A Common Shares are increased, decreased or exchanged for or converted into cash, property or a different number or kind of securities, or if cash, property or securities are distributed in respect of such outstanding Class A Common Shares, in either case as a result of a restructuring, reclassification, dividend (other than a regular, quarterly cash dividend) or other distribution, stock split, reverse stock split or the like, or if substantially all of the property and assets of the Company are sold, then, unless such transaction shall provide otherwise, the Board shall make appropriate and proportionate adjustments in the number and type of shares or other securities or cash or other property that may be acquired upon the exercise in full of the Option.

Notwithstanding the above, in the event the Company engages in a recapitalization or similar transaction wherein its Class A Common Shares are divided into two classes with different voting rights, the Option shall be exercisable into that class of common stock having fewer votes per share.

5. Exercise. The Option shall be exercisable during Optionee's lifetime only by Optionee or by his or her guardian or legal representative, and after Optionee's death only by the person or entity entitled to do so under Optionee's last will and testament or applicable intestate law. The Option may only be exercised by the delivery to the Company of a written notice of such exercise pursuant to the notice procedures set forth in Section 7 hereof, which notice shall specify the number of Option Shares to be purchased (the "Purchased Shares") and the aggregate Exercise Price for such shares (the "Exercise Price"), together with payment in full of such aggregate Exercise Price in cash or check payable to the Company.

6. Payment of Withholding Taxes. If the Company becomes obligated to withhold an amount on account of any federal, state or local income tax imposed as a result of the exercise of the Option (such amount shall be referred to herein as the "Withholding Liability"), Optionee shall pay the Withholding Liability to the Company in full in cash or check payable to the Company on the first date upon which the Company becomes obligated to pay such amount withheld to the appropriate taxing authority, and the Company may delay issuing the Class A Common Shares pursuant to such exercise until it receives the Withholding Liability from Optionee.

7. Notices. Any notices given to the Company shall be addressed to the Company at 3308 North Mitthoeffler Road, Indianapolis, Indiana 46236, Attention: Secretary, and to Optionee at the address set forth below Optionee's signature hereto, or at such other address as Optionee may hereafter designate in writing to the Company. Any such notice shall be deemed duly given when sent by prepaid certified or registered mail and deposited in a post office or branch post office regularly maintained by the United States Government.

8. Stock Exchange Requirements; Applicable Laws. Notwithstanding anything to the contrary in this Agreement, no shares of stock purchased upon exercise of the Option, and no certificate representing all or any part of such shares, shall be issued or delivered if (a) such shares have not been admitted to or listed under each stock exchange upon which shares of that class are then listed or (b) in the opinion of counsel to the Company such issuances would be in violation of any federal, state or other securities law, or any requirement of any stock exchange listing agreement to which the Company is a party, or any other requirement of law or of any administrative or regulatory body having jurisdiction over the Company.

9. Nontransferrability. Neither the Option nor any interest therein may be sold, assigned, conveyed, gifted, pledged, hypothecated or otherwise transferred in any manner other than by will or the laws of descent and distribution.

10. The Plan. THE OPTION IS GRANTED PURSUANT TO THE NON-EMPLOYEE DIRECTOR STOCK OPTION PLAN, AS IN EFFECT ON THE DATE OF GRANT, AND IS SUBJECT TO ALL THE TERMS AND CONDITIONS OF THE PLAN AS THE SAME MAY BE AMENDED FROM TIME TO TIME; PROVIDED, HOWEVER, THAT NO SUCH AMENDMENT SHALL DEPRIVE OPTIONEE, WITHOUT HIS OR HER CONSENT, OF THE OPTION OR OF ANY OF OPTIONEE'S RIGHTS UNDER THIS AGREEMENT. THE INTERPRETATION AND CONSTRUCTION BY THE BOARD OF THE PLAN, THIS

AGREEMENT, THE OPTION AND SUCH RULES AND REGULATIONS AS MAY BE ADOPTED BY THE BOARD FOR THE PURPOSE OF ADMINISTERING THE PLAN SHALL BE FINAL AND BINDING UPON OPTIONEE. UNTIL THE OPTION SHALL EXPIRE, TERMINATE OR BE EXERCISED IN FULL, THE COMPANY SHALL, UPON WRITTEN REQUEST THEREFORE, SEND A COPY OF THE PLAN, IN ITS THEN-CURRENT FORM, TO OPTIONEE OR ANY OTHER PERSON OR ENTITY THEN ENTITLED TO EXERCISE THE OPTION.

11. Fractional Shares. The Company shall not be required to issue a fraction of a Class A Common Share in connection with the exercise of the Option. In any case where the Optionee would be entitled to receive a fraction of a Class A Common Share upon the exercise of the Option, the Company shall instead, upon the exercise of the Option, issue the largest whole number of Class A Common Shares purchasable upon exercise of the Option, and pay to the Optionee in cash the Fair Market Value (as determined by the Board) of such fraction of a Class A Common Share at the time of exercise of the Option.

12. Stockholder Rights. No person or entity shall be entitled to vote, receive dividends or be deemed for any purpose the holder of any Option Shares until the Option shall have been duly exercised to purchase such Option Shares in accordance with the provisions of this Agreement.

13. Governing Law. This Agreement and the Option granted hereunder shall be governed by and construed and enforced in accordance with the laws of the State of Delaware.

14. Entire Agreement. This Agreement constitutes the entire agreement of the parties with respect to the matters covered herein and supersedes all prior written or oral agreements or understandings of the parties with respect to the matters covered herein.

IN WITNESS WHEREOF, the Company and Optionee have duly executed this Agreement as of the Date of Grant.

THE FINISH LINE, INC.

OPTIONEE

By _____
NAME: Steven J. Schneider
TITLE: Sr. Vice President Finance

Signature

THE FINISH LINE, INC.
EMPLOYEE STOCK PURCHASE PLAN

WITNESSETH:

WHEREAS, The Finish Line, Inc. ("Corporation") desires to provide eligible employees of the Corporation and its subsidiaries interest in the Corporation through the purchase of shares of common stock of the Corporation ("Common Stock"); and

WHEREAS, the Corporation desires to offer further inducement to eligible employees to remain as employees by providing a plan for the purchase of Common Stock at a discounted rate.

NOW, THEREFORE, the Corporation hereby establishes this Employee Stock Purchase Plan (the "Plan") pursuant to the provisions of Section 423 of the Internal Revenue Code of 1986, as amended, as follows:

ARTICLE I
ESTABLISHMENT OF PLAN

The Plan is hereby established effective as of the date the registration of the Common Stock to be issued hereunder is declared effective by the Securities and Exchange Commission; provided, however, that this Plan shall not become effective unless it has received the approval of the holders of a majority of the issued and outstanding Common Stock of the Corporation who are either present or represented and entitled to vote at a meeting of shareholders of the Corporation duly held within twelve (12) months after the date the Plan is adopted by the Board of Directors of the Corporation.

ARTICLE II
DEFINITIONS AND CONSTRUCTION

Section 2.01. Definitions. When the initial letter of a word or phrase is capitalized, the meaning of such word or phrase shall be as follows:

- (a) "**Account**" means one or more bookkeeping accounts where a recording of each Participant's interest in the Plan, consisting of the sum of the Participant's payroll deductions under the Plan and the number of shares of Common Stock purchased by the Participant, all of which shall be maintained by the Custodian. Each Account shall be in the name of the Participant or, if permitted by the Committee and so indicated on his or her enrollment form, in his or her name jointly with a member of his or her family, with right of survivorship. If permitted by the Committee, a Participant who is a resident of a jurisdiction which does not recognize such a joint tenancy may have an Account in his or her name as tenant in common with a member of his or her family, without rights of survivorship.
- (b) "**Act**" means the Securities Exchange Act of 1934, as amended.
- (c) "**Board of Directors**" means the board of directors of the Corporation as it shall exist from time to time.
- (d) "**Code**" means the Internal Revenue Code of 1986, as amended or any subsequently enacted federal revenue law.
- (e) "**Committee**" means the Compensation and Stock Option Committee of the Board of Directors, provided that, if any member of the Committee does not qualify as both an outside director for purposes of Code Section 162(m) and a non-employee director for purposes of Rule 16b-3 of the Act, the remaining members of the Committee (but not less than two members) shall be constituted as a subcommittee of the Committee to act as the Committee for purposes of the Plan.
- (f) "**Common Stock**" means the shares of Class A Common Stock, no par value, of the Corporation.
- (g) "**Corporation**" means The Finish Line, Inc., an Indiana corporation, and its successors (by merger, consolidation or otherwise) and assigns.
- (h) "**Custodian**" means any party designated by the Committee pursuant to Section 7.02 to act as custodian of the Plan.
- (i) "**Effective Date**" means the effective date of this Plan, which is the date the registration of shares of Common Stock to be issued hereunder with the Securities and Exchange Commission is declared effective.

(j) “**Eligible Employee**” means any person employed by the Corporation or any of its subsidiaries or controlled entities (as designated by the Committee) except for:

- (1) employees who have been employed less than six (6) months; or
- (2) employees whose customary employment is twenty (20) hours or less per week.

(k) “**Fair Market Value**” means the closing trading price of a share of Common Stock as reported on any national securities exchange on which the shares are listed (or, if listed on more than one such exchange, then on the one located in New York City), or if not so listed, the closing price reported on the National Association of Securities Dealers, Inc., Automated Quotations System (Nasdaq).

(l) “**Offering Date**” means the first business day in January of each calendar year during the Plan Term on which Fair Market Value can be determined and Common Stock is offered for purchase hereunder and/or such other date or dates selected by the Committee from time to time or which Common Stock is offered for purchase hereunder (with Fair Market Value determined on such date or, if not quoted on such date, on the last day prior thereto on which Fair Market Value is quoted); provided, however, for the year 2004 the Offering Date means September 1, 2004 or the first business day thereafter selected by the Committee on which Fair Market Value can be determined.

(m) “**Participant**” means an Eligible Employee who (i) authorizes the Corporation to make payroll deductions from Plan Compensation for the purpose of purchasing Common Stock pursuant to the Plan, (ii) has commenced participation in the Plan pursuant to Section 3.01, and (iii) has not incurred a withdrawal, voluntary or involuntary, pursuant to Article VI.

(n) “**Payday**” means the date on which an Eligible Employee receives any Plan Compensation.

(o) “**Plan**” means this The Finish Line, Inc. Employee Stock Purchase Plan.

(p) “**Plan Compensation**” means all compensation paid by the Corporation or any subsidiary to an employee through their respective payroll systems for services as an employee, including wages, salary, incentive compensation and bonuses, but excluding therefrom profit sharing payments, stock incentive program payments and all other fringe benefit payments.

(q) “**Plan Term**” means the period from September 1, 2004 to and including December 31, 2014.

(r) “**Purchase Date**” means the last business day in December of each calendar year during the Plan Term on which Fair Market Value can be determined and in which Common Stock is acquired hereunder and/or such other date or dates selected by the Committee from time to time on which Common Stock is acquired hereunder (with Fair Market Value determined on such date or, if not quoted on such date, on the last day prior thereto on which Fair Market Value is quoted).

(s) “**Purchase Price**” means the price per share of Common Stock for purchase by Participants as defined in Section 5.02.

(t) “**Section,**” when not preceded by the word “Code,” means a section of this Plan.

Section 2.02. Construction and Governing Law.

(a) This Plan shall be construed, enforced and administered and the validity thereof determined in accordance with the Code and the regulations thereunder, and in accordance with the laws of the State of Indiana when such laws are not inconsistent with the Code.

(b) This Plan is intended to qualify as an employee stock purchase plan under Code Section 423 and the regulations thereunder. The provisions of the Plan shall be construed so as to fulfill this intention.

ARTICLE III PARTICIPATION

Section 3.01. Participation. Any person who is an Eligible Employee as of any Offering Date under this Plan may become a Participant in this Plan beginning on such Offering Date by completing and delivering to the Committee such enrollment form(s) as the Committee shall require to authorize payroll deductions and to request participation in this Plan, all within the time period prior to such Offering Date prescribed by the Committee.

Section 3.02. Payroll Deductions.

(a) Payroll deductions for a Participant shall commence on the first Payday after the Offering Date when the Eligible Employee becomes a Participant and shall continue thereafter until the earlier of (i) the termination of this Plan, as provided in Section 8.02, or (ii) the date the Participant suspends his or her payroll deductions pursuant to paragraph (b) of this Section 3.02. Each Participant shall authorize his or her employer to make deductions from Participant's Plan Compensation on each Payday during such time as he or she is a Participant in the Plan at even rates from 2% through 10% of the Participant's Plan Compensation.

(b) A Participant may increase, decrease or suspend his or her payroll deduction one time only between Offering Dates during participation effective as of the Payday following delivery of written notice to the Committee, or as soon as administratively reasonable thereafter. A Participant's suspension of payroll deductions shall not automatically result in withdrawal from participation in the Plan. If a Participant, on any scheduled Payday, shall receive no pay or his or her net pay shall be insufficient, after all required deductions, to permit withholding the payroll deduction in full as authorized hereunder and in the enrollment form, the Corporation or its subsidiary shall (i) if the pay is insufficient for any deduction hereunder, suspend the deduction until the next Payday in which Participant's net pay is sufficient for such withholding, or (ii) if the pay is insufficient for a full deduction hereunder, effect a partial deduction equal to the net pay available for such deduction; provided, however, that no withdrawal shall be deemed to have occurred in either event. If no deduction or if a partial deduction is effected, no carryover of the balance of the authorized deduction shall occur.

Section 3.03. Participant's Account. On each Payday, the Corporation or its subsidiary, as the case may be, shall deduct the authorized amount from each Participant's Plan Compensation and, as soon as administratively reasonable, shall report the amount of such deductions to the Custodian. The Custodian shall credit the Account of each Participant with the amount of the Participant's payroll deduction under the Plan effective as of the Payday on which it was deducted. Interest may be earned and retained by the Corporation but interest shall not be paid on amounts held in a Participant's Account.

ARTICLE IV COMMON STOCK

The shares subject to issuance under this Plan shall be Common Stock. The total number of shares of Common Stock which may be purchased under this Plan shall not exceed in the aggregate one million two hundred thousand (1,200,000) shares, of which not more than one hundred twenty thousand (120,000) shares of Common Stock shall be issued in any one calendar year during the Plan Term, except as such numbers of shares of Common Stock shall be or have been adjusted in accordance with Sections 5.01(a) and 8.01 of this Plan. In the event the aggregate number of shares of Common Stock issuable for any calendar year shall exceed one hundred twenty thousand (120,000) shares of Common Stock (adjusted pursuant to Sections 5.01(a) and 8.01 of the Plan) (the "Annual Maximum"), the Committee shall reduce proportionately each Participant's purchase hereunder to the extent necessary so that the aggregate number of shares of Common Stock will not exceed the Annual Maximum (allocated proportionately for each Purchase Date during each calendar) and if any such reduction results in cash credited to a Participant's Account, such cash credited shall remain credited to the Participant's Account and be used to purchase Common Stock on the next Purchase Date. Common Stock required to satisfy purchases pursuant to the Plan shall be provided out of the Corporation's authorized and unissued shares or treasury shares or acquired by the Corporation in open market transactions or private transactions. If shares of Common Stock are purchased in one or more transactions on the open market or in private transactions at the direction of the Committee, the Corporation will pay the difference between the Purchase Price and the price at which such shares are purchased for Participants.

ARTICLE V PURCHASE OF COMMON STOCK

Section 5.01. The Offering.

(a) The Corporation shall offer an aggregate of one hundred twenty thousand (120,000) shares of Common Stock for purchase by Participants during each calendar year pursuant to the terms of this Plan; provided, however, for calendar year 2004 the Corporation shall offer an aggregate of forty thousand (40,000) shares of Common Stock for purchase by Participants. The number of shares of Common Stock offered annually hereunder shall be increased by the aggregate number of shares of Common Stock, if any, which were offered but not purchased during prior calendar years and shall be subject to further adjustment in accordance with Section 8.01 of this Plan.

(b) Notwithstanding any provision in this Plan to the contrary:

(1) a Participant may not purchase Common Stock hereunder to the extent that, after such purchase, the Participant would own (or be considered to own) of record or beneficially shares in the Corporation possessing five percent (5%) or more of the total combined voting power or value of all classes of shares of the Corporation, within the meaning of Code Section 423(b)(3); and (2) no Participant may purchase, during any one calendar year, shares under all employee stock purchase plans of the Corporation and its subsidiaries to accrue at a rate which exceeds Twenty Five Thousand Dollars (\$25,000) of Fair Market Value of shares of Common Stock (determined at the Offering Date), within the meaning of Code Section 423(b)(8).

Section 5.02. Purchase Price. The "Purchase Price" for Common Stock purchased shall be equal to 85% of Fair Market Value per share of the Common Stock on the Purchase Date.

Section 5.03. Purchase of Common Stock; Limitations.

(a) Within ten (10) days following each Purchase Date during the Plan Term, the Committee shall determine the Purchase Price per share of Common Stock in accordance with Section 5.02 herein. Each Participant shall thereupon automatically purchase from the Corporation and the Corporation, upon payment of the purchase price by the Custodian, shall cause to be issued to the Participant, as promptly as administratively possible, that number of shares (including fractional shares unless otherwise determined by the Committee) of Common Stock which such Participant's Account shall enable such Participant to purchase at the Purchase Price. Irrespective of the actual date of purchase, the date of purchase of Common Stock hereunder shall be deemed the Purchase Date. All shares purchased shall be maintained by the Custodian in the Account for each Participant. All cash dividends paid with respect to shares of the Common Stock held in the Account shall be added to the Participant's Account and shall be used to purchase shares of Common Stock at the next Purchase Date. Expenses incurred in the purchase of such shares shall be paid by the Corporation. All dividends distributed in-kind with respect to Common Stock held in the Account shall be added to the shares held for a Participant in his or her Account. Any distribution of shares with respect to shares of Common Stock held for a Participant in his or her Account shall be added to the shares of Common Stock held for a Participant in his or her Account.

(b) No Eligible Employee may purchase annually more than 1,000 shares of Common Stock, or Common Stock having a Fair Market Value in excess of Ten Thousand Dollars (\$10,000), whichever is less.

(c) A Participant shall have no interest in, or rights as a shareholder with respect to, Common Stock subject to purchase under this Plan until such shares of Common Stock have been issued to the Participant.

Section 5.04. Sale of Common Stock. Unless otherwise prohibited by law or policy of the Corporation, a Participant shall have the right at any time to direct that any shares of Common Stock in his or her Account be sold and that the proceeds, less expenses of sale, be remitted to him or her.

ARTICLE VI WITHDRAWAL

Section 6.01. Voluntary Withdrawal. A Participant may withdraw from participation in the Plan at any time. A Participant's withdrawal shall be effective as of the Payday following delivery of written notice to the Committee, or as soon as administratively reasonable thereafter. The Committee shall notify the Custodian of the withdrawal of any Participant. As soon as administratively reasonable after the effective date of a Participant's withdrawal from the Plan, the cash balance of the Participant's Account shall be paid to him or her in cash. No partial withdrawals of each are permitted. When there is a voluntary withdrawal of a Participant, the Participant may elect to have his or her shares sold by the Custodian and the proceeds, after selling expenses, remitted to him or her or the Participant may elect to have the shares of Common Stock credited to his or her Account or a certificate (if the Company Stock is certificated) for the shares of Common Stock credited to the Participant's Account forwarded to him or her or a third party directed by him or her. Any Eligible Employee who withdraws from the Plan shall be entitled to resume payroll deductions and become a Participant only after compliance with Section 3.01.

Section 6.02. Involuntary Withdrawal. Upon termination of a Participant's employment with the Corporation or its subsidiaries for any reason, or no reason, including resignation, discharge (with or without cause), disability or retirement, the cash balance of the Participant's Account shall be paid to the Participant, or, in the case of the Participant's death, to the Participant's beneficiary as provided in Section 6.04. The Corporation or the Custodian shall pay such amount as soon as administratively reasonable after the Committee has received notification of such termination of employment. When there is an involuntary withdrawal of a Participant, the number of shares of Common Stock credited to his or her Account shall be forwarded to him or her or in the case of the Participant's death to the Participant's beneficiary as provided in Section 6.04, in a form determined by the Committee.

Section 6.03. Interest. No payroll deductions or Account balances paid to a Participant, or paid to any beneficiary in accordance with Section 6.04, shall be credited with interest.

Section 6.04. Participant's Beneficiary.

- (a) A Participant may file with the Committee a written designation of a beneficiary who is to receive any Common Stock or cash credited to the Participant's Account under this Plan in the event of the Participant's death. Such designation of beneficiary may be changed by the Participant at any time by written notice to the Committee on the form approved by the Committee.
- (b) Upon the death of a Participant, and on receipt by the Committee of reasonable proof of the identity and existence of the Participant's designated beneficiary, the Committee shall cause delivery of the shares or cash as provided in Section 6.04(a), if any, to such beneficiary as soon as administratively reasonable. If a Participant dies without a surviving designated beneficiary, the Committee shall cause delivery of such shares or cash to the estate or a representative of the estate of the Participant.
- (c) No designated beneficiary and no heir or beneficiary of the estate of a deceased Participant shall acquire any interest in the Common Stock or cash credited to the Participant's Account under this Plan prior to the death of the Participant.

**ARTICLE VII
PLAN ADMINISTRATION**

Section 7.01. Administrative Committee.

- (a) The Plan shall be administered, at the expense of the Corporation, by the Committee.
- (b) The Committee shall be vested with full authority to take any and all actions necessary to implement this Plan and to interpret this Plan and make, administer and interpret such rules and regulations as it deems necessary to administer the Plan. Any determination, construction, interpretation, administration, or application of the Plan by the Committee shall be final, conclusive and binding on all Participants, beneficiaries and any and all other persons claiming under or through any Participant. The Committee may delegate administration of this Plan to one or more employees or positions of the Corporation.
- (c) Service on the Committee shall constitute service as a director of the Corporation so that members of the Committee shall be entitled to such indemnification and reimbursement as directors of the Corporation as provided in its Articles of Incorporation and/or Bylaws.

Section 7.02. Custodian.

- (a) The Committee, in its sole discretion, shall appoint a Custodian. The Custodian may be removed by the Committee at any time.
- (b) The Custodian shall keep or cause to be kept accurate and detailed bookkeeping accounts of all contributions, receipts, disbursements and transfers of cash and shares of Common Stock under the Plan, and all bookkeeping accounts, books and records relating thereto shall be open to inspection and audit at all reasonable times by any person designated by the Board of Directors or the Committee.

Section 7.03. Transferability. Neither payroll deductions credited to a Participant's Account nor any rights with regard to the purchase or receipt of Common Stock under this Plan may be assigned, transferred, pledged or otherwise disposed of in any way by the Participant, except with respect to the death of the Participant as provided in Sections 6.02 and 6.04. Any such attempted assignment, transfer, pledge, or other disposition shall be without effect, except that the Committee, in its sole discretion, may treat such act as an election to withdraw from the Plan in accordance with Section 6.01.

Section 7.04. Separate Accounting for Payroll Deductions. All funds received or held by the Corporation under this Plan may be used for the Corporation's general corporate purposes, and the Corporation shall not be obligated to segregate such payroll deductions.

Section 7.05. Only Employees Eligible To Participate. Notwithstanding any other provision of the Plan, to be eligible to purchase Common Stock hereunder as of a Purchase Date, a Participant must remain an employee at all times from the Offering Date through such Purchase Date.

Section 7.06. Equal Rights and Privileges. Notwithstanding any other provision of the Plan, all Eligible Employees shall have the same rights and privileges under the Plan, as required by Code Section 423 and the regulations thereunder, and the Committee shall administer the Plan and interpret and apply the provisions of the Plan accordingly.

ARTICLE VIII AMENDMENT AND TERMINATION

Section 8.01. Adjustment of Stock. In the event of any change after the effective date of the Plan in the outstanding shares of the Corporation by reason of any reorganization, recapitalization, stock split, stock dividend, combination of shares, exchange of shares, merger or consolidation, liquidation, or any other change after the effective date of the Plan in the nature of the Common Stock of the Corporation, the Committee shall make a corresponding adjustment in the number and kind of shares reserved under this Plan, and in the purchase price and the number and kind of shares covered by outstanding purchase commitments under this Plan as determined by the Committee. Any determination by the Committee hereunder shall be conclusive, final and binding on all persons. If the Corporation is a party to a consolidation or a merger in which the Corporation is not the surviving corporation, a transaction that results in the acquisition of substantially all of the Corporation's outstanding stock by a single person or group, or a sale or transfer of substantially all of the Corporation's assets, the Committee may take such actions with respect to this Plan as the Committee deems appropriate.

Section 8.02. Amendment and Termination.

(a) The Board of Directors, except any members participating in this Plan, may at any time and from time to time, alter, amend, suspend, or terminate this Plan in any way; provided, however, that if this Plan is terminated the effective date of termination shall be immediately after the next Purchase Date; provided further, that the Board of Directors may not, without approval by the holders of the issued and outstanding shares of Common Stock:

- (1) increase the maximum number of shares of Common Stock which may be issued under this Plan (other than to reflect adjustment permitted under Section 8.01 hereof);
- (2) change the class of shares which may be issued under this Plan;
- (3) change the designation of the persons or class of persons eligible to participate and receive Common Stock under this Plan (except as permitted under Section 2.01 (i)(1) hereof); or
- (4) change the provision of Section 5.02 concerning the Purchase Price,

(b) Unless earlier terminated by the Board of Directors pursuant to paragraph (a) of this Section 8.02, this Plan will terminate on the earlier of: (i) the last day of the Plan Term, or (ii) the date on which the authorized remaining Common Stock reserved for this Plan are not sufficient to enable each Participant on such date to purchase at least one share of Common Stock. No purchases of Common Stock shall be made after the termination of this Plan.

ARTICLE IX MISCELLANEOUS

Section 9.01. Notices. All notices or other communications by a Participant to the Committee under or in connection with the Plan shall be deemed to have been duly given when received by the Secretary of the Board of Directors of the Corporation or when received in the form and at the location or by the person specified by the Committee. Any notices or other communications by the Committee to a Participant under or in connection with this Plan shall be deemed to have been duly given when mailed by the Committee to the most recent address of the Participant on the business records of the Corporation.

Section 9.02. No Right To Continued Employment. Neither enrollment in the Plan, the purchase of Common Stock hereunder, nor participation otherwise in the Plan shall impose any obligation on the Corporation or any subsidiary to continue to employ any person.

Section 9.03. Notice of Sale. As a condition of participation in this Plan, each Participant agrees to notify the Corporation if he or she sells or otherwise disposes of any of his or her shares of Common Stock purchased pursuant to this Plan within two years of the Offering Date on which such shares were offered or within one year of the Purchase Date on which such shares were purchased. Notwithstanding anything herein to the contrary, the Corporation (or employer) shall have the right to satisfy any obligations to withhold taxes incurred by reason of the issuance and/or sale of Common Stock hereunder.

AMENDMENT NUMBER 1
TO THE FINISH LINE, INC. 2009 INCENTIVE PLAN

Pursuant to rights reserved under Section 13.1 of The Finish Line, Inc. 2009 Incentive Plan (the "Plan"), the Board of Directors of The Finish Line, Inc. hereby amends the Plan as follows.

1. The third sentence of Section 13.4(l) of the Plan, which reads "To the extent not prohibited by Section 409A of the Code, if the delayed payment consists of cash, interest shall accrue on the delayed payment at the rate of 7% per annum and if the delayed payment consists of Stock, dividends and distributions paid with respect to such Stock shall be added to the delayed payment" is hereby amended and restated to read in its entirety as follows:

"The Award subject of the delayed payment shall be automatically transferred to the then applicable Finish Line non-qualified deferred compensation plan and be invested pursuant to the investment elections in effect for the participant pursuant to that plan."

2. All other terms and provisions of the Plan shall remain in full force and effect.

IN WITNESS WHEREOF this Amendment Number 1 has been executed to be effective as of January 21, 2010.

THE FINISH LINE, INC.

Signature: /s/ Bill Kirkendall
Printed Name: Bill Kirkendall
Title: Director, Chairman of Compensation
and Stock Option Committee

SUBSIDIARIES OF THE FINISH LINE, INC.

<u>Subsidiary</u>	<u>State of Incorporation</u>	<u>Percentage of Ownership</u>
Spike's Holding, LLC	Indiana	100%*
Finish Line Transportation Co., Inc.	Indiana	100%
The Finish Line Distribution, Inc.	Indiana	100%
The Finish Line USA, Inc.	Indiana	100%
The Finish Line MA, Inc.	Indiana	100%
Paiva, LLC	Indiana	100%

* Spike's Holding, LLC is owned 100% by The Finish Line USA, Inc.

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements (Form S-8 Nos. 33-95720, 33-51392 and 333-62063) pertaining to The Finish Line, Inc. 1992 Employee Stock Incentive Plan, the Registration Statement (Form S-8 No. 33-84590) pertaining to The Finish Line, Inc. Non-Employee Director Stock Option Plan, the Registration Statements (Form S-8 Nos. 333-100427 and 333-126881) pertaining to The Finish Line, Inc. 2002 Stock Incentive Plan, the Registration Statement (Form S-8 No. 333-118069) pertaining to The Finish Line, Inc. Employee Stock Purchase Plan, the Registration Statement (Form S-8 No. 333-160751) pertaining to The Finish Line, Inc. 2009 Incentive Plan and the Registration Statement (Form S-3 No. 333-150091) of The Finish Line, Inc. of our reports dated May 6, 2010, with respect to the consolidated financial statements of The Finish Line, Inc., and the effectiveness of internal control over financial reporting of The Finish Line, Inc. included in this Annual Report (Form 10-K) for the year ended February 27, 2010.

/s/ ERNST & YOUNG LLP

Indianapolis, Indiana
May 6, 2010

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Each of the undersigned hereby certifies, in his capacity as an officer of The Finish Line, Inc. (the "Company"), for purposes of 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that to the best of his knowledge;

- The Annual Report on Form 10-K of the Company for the year ended February 27, 2010 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78); and
- The information contained in such Annual Report on Form 10-K fairly presents, in all material aspects, the financial condition and results of operation of the Company.

Date: May 6, 2010

By: /S/ GLENN S. LYON
 Glenn S. Lyon
 Chief Executive Officer and Director
 (Principal Executive Officer)

By: /S/ EDWARD W. WILHELM
 Edward W. Wilhelm
 Executive Vice President,
 Chief Financial Officer
 (Principal Financial Officer)

A signed original of this written statement required by Section 906 has been provided to The Finish Line, Inc. and will be retained by The Finish Line, Inc. and forwarded to the Securities and Exchange Commission or its staff upon request.