FINISH LINE INC /IN/
Form 10-Q
January 07, 2009

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 29, 2008

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ___________ to ___________

Commission File number 0-20184

The Finish Line, Inc.

(Exact name of registrant as specified in its charter)

Indiana	**35-1537210**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer identification number)**
3308 North Mitthoeffer Road Indianapolis, Indiana	**46235**
(Address of principal executive offices)	**(zip code)**

317-899-1022

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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 Exchange Act.

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

Shares of common stock outstanding at January 2, 2009:

Class A	50,527,122
Class B	4,303,296

PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE FINISH LINE, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands)

	November 29, 2008 (unaudited)	December 1, 2007 (unaudited)	March 1, 2008
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	$ 30,249	$ 14,065	$ 72,901
Short-term investments	24,899		
Accounts receivable, net	3,862	7,259	7,746
Merchandise inventories, net	293,244	338,732	268,333
Income taxes recoverable	29,556	7,272	
Deferred income taxes			16,992
Other	6,237	14,901	15,835
Total current assets	388,047	382,229	381,807
PROPERTY AND EQUIPMENT:			
Land	1,557	1,557	1,557
Building	41,463	41,426	41,429
Leasehold improvements	277,930	283,695	274,249
Furniture, fixtures and equipment	116,611	113,280	113,995
Construction in progress	885	2,428	2,842
	438,446	442,386	434,072
Less accumulated depreciation	237,441	212,660	216,238
	201,005	229,726	217,834
Deferred income taxes	30,971	23,034	29,692
Goodwill	5,964	5,964	5,964
Other assets, net	7,658	7,797	7,750
Total assets	$ 633,645	$ 648,750	$ 643,047

See accompanying notes.

THE FINISH LINE, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands)

	November 29, 2008 (unaudited)	December 1, 2007 (unaudited)	March 1, 2008
LIABILITIES AND SHAREHOLDERS EQUITY			
CURRENT LIABILITIES:			
Accounts payable	$ 79,783	$ 100,845	$ 63,768
Terminated merger-related liabilities	206		47,129
Employee compensation	15,666	13,391	10,159
Accrued property and sales tax	8,329	6,788	8,100
Income taxes payable			1,734
Deferred income taxes	16,573	5,089	
Other liabilities and accrued expenses	16,876	19,869	16,170
Total current liabilities	137,433	145,982	147,060
Deferred credits from landlords	54,441	62,686	59,642
Other long-term liabilities	15,042	8,370	15,479
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 (November 29, 2008 55,006; December 1, 2007 47,649; March 1, 2008 47,649)			
Shares outstanding (November 29, 2008 49,647; December 1, 2007 42,164; March 1, 2008 42,206)	550	476	476
Class B:			
Shares authorized 10,000			
Shares issued and outstanding (November 29, 2008 4,303; December 1, 2007 5,141; March 1, 2008 5,141)	43	52	52
Additional paid-in capital	186,355	154,606	182,756
Retained earnings	286,764	324,125	284,936
Treasury stock (November 29, 2008 5,359; December 1, 2007 5,485; March 1, 2008 5,443)	(46,983)	(47,547)	(47,354)
Total shareholders equity	426,729	431,712	420,866
Total liabilities and shareholders equity	$ 633,645	$ 648,750	$ 643,047

See accompanying notes.

THE FINISH LINE, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	November 29, 2008	December 1, 2007	November 29, 2008	December 1, 2007
Net sales	$ 256,864	$ 268,699	$ 898,115	$ 894,409
Cost of sales (including occupancy costs)	190,280	198,803	637,692	646,163
Gross profit	66,584	69,896	260,423	248,246
Selling, general and administrative expenses	81,060	83,261	251,709	253,372
Terminated merger-related costs	23	9,658	106	9,883
Operating (loss) income	(14,499)	(23,023)	8,608	(15,009)
Interest income, net	194	223	693	923
(Loss) income from continuing operations before income taxes	(14,305)	(22,800)	9,301	(14,086)
Income tax (benefit) expense	(5,462)	(9,035)	4,059	(4,626)
(Loss) income from continuing operations	(8,843)	(13,765)	5,242	(9,460)
Loss from discontinued operations, net of income taxes		(2,189)	(123)	(12,163)
Net (loss) income	$ (8,843)	$ (15,954)	$ 5,119	$ (21,623)
(Loss) income per basic share:				
(Loss) income from continuing operations	$ (0.16)	$ (0.29)	$ 0.10	$ (0.20)
Loss from discontinued operations		(0.05)		(0.26)
Net (loss) income	$ (0.16)	$ (0.34)	$ 0.10	$ (0.46)
Basic weighted average shares outstanding	53,935	47,211	53,786	47,178
(Loss) income per diluted share:				
(Loss) income from continuing operations	$ (0.16)	$ (0.29)	$ 0.10	$ (0.20)
Loss from discontinued operations		(0.05)		(0.26)
Net (loss) income	$ (0.16)	$ (0.34)	$ 0.10	$ (0.46)
Diluted weighted average shares outstanding	53,935	47,211	54,477	47,178
Dividends declared per share	$ 0.030	$	$ 0.060	$ 0.025

See accompanying notes.

THE FINISH LINE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands) (Unaudited)

	Thirty-Nine Weeks Ended November 29, 2008	Thirty-Nine Weeks Ended December 1, 2007
OPERATING ACTIVITIES:		
Net income (loss)	$ 5,119	$ (21,623)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Asset impairment		11,527
Depreciation and amortization	28,382	31,015
Deferred income taxes	32,286	(15,198)
Share-based compensation	3,584	4,748
Loss on disposal of property and equipment	816	521
Excess tax benefits from share-based compensation	(52)	(158)
Changes in operating assets and liabilities:		
Accounts receivable, net	3,884	5,586
Merchandise inventories, net	(24,911)	(51,432)
Other current assets	9,598	2,466
Accounts payable	16,015	17,219
Employee compensation	5,507	4,773
Accrued income taxes payable/recoverable	(31,894)	(14,641)
Terminated merger-related liabilities	(46,923)	
Other liabilities and accrued expenses	(687)	4,718
Deferred credits from landlords	(5,201)	(1,786)
Net cash used in operating activities	(4,477)	(22,265)
INVESTING ACTIVITIES:		
Additions to property and equipment	(13,133)	(25,263)
Proceeds from disposals of property and equipment	975	153
Purchases of short-term investments	(24,899)	
Purchases of available-for-sale marketable securities		(58,750)
Proceeds from sale of available-for-sale marketable securities		58,750
Net cash used in investing activities	(37,057)	(25,110)
FINANCING ACTIVITIES:		
Proceeds from short-term borrowings	10,000	1,800
Repayments on short-term borrowings	(10,000)	(1,800)
Dividends paid to shareholders	(1,646)	(2,376)
Proceeds from issuance of common stock	476	794
Excess tax benefits from share-based compensation	52	158
Net cash used in financing activities	(1,118)	(1,424)
Net decrease in cash and cash equivalents	(42,652)	(48,799)
Cash and cash equivalents at beginning of period	72,901	62,864
Cash and cash equivalents at end of period	$ 30,249	$ 14,065

See accompanying notes.

THE FINISH LINE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements of The Finish Line, Inc., along with its wholly-owned subsidiaries, (collectively, the Company) have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statements. Preparation of the financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation, have been included.

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

These financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company s Annual Report on Form 10-K for the year ended March 1, 2008 (fiscal 2008).

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.

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 delivered the Shares to Genesco shareholders on June 13, 2008. The Company does not expect to incur any significant ongoing costs relating to this matter.

The Terminated merger-related liabilities of $47,129,000 on the Consolidated Balance Sheets as of March 1, 2008, consisted of the $39,000,000 cash payment and $8,129,000 of unpaid legal and professional fees related to the terminated merger and settlement. As of November 29, 2008, the Terminated merger-related liabilities consisted of unpaid legal and professional fees of $206,000 related to the terminated merger and settlement.

3. Discontinued Operations of 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 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 results of operations of Paiva have been classified in discontinued operations for all periods presented. 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):

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	November 29, 2008	December 1, 2007	November 29, 2008	December 1, 2007
	(unaudited)		(unaudited)	
Net sales	$	$ 1,642	$	$ 7,230
Loss from discontinued operations	$	$ (3,594)	$ (202)	$ (20,285)
Income tax benefit		(1,405)	(79)	(8,122)
Loss from discontinued operations, net of income tax	$	$ (2,189)	$ (123)	$ (12,163)

For the thirteen weeks ended December 1, 2007, the loss from discontinued operations of Paiva included operating losses as well as $3.1 million of lease expense resulting from $3.9 million of estimated future rent payments, including estimated lease termination payments, offset by $0.8 million of reversal of step rent liability previously included within Deferred credits from landlords on the Consolidated Balance Sheets. For the thirty-nine weeks ended December 1, 2007, the loss from discontinued operations of Paiva included operating losses as well as $11.5 million related to the impairment of long-lived assets and $4.0 million of lease expense resulting from $5.2 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.

Based on the Company s current estimates as of November 29, 2008, future lease payments, including estimated lease termination payments, and repayment of unamortized construction allowances are expected to result in a total cash outlay of approximately $100,000 and $117,000, respectively. Unamortized construction allowances are included within Deferred credits from landlords. The Company anticipates that all cash payments will occur within the next 4 months.

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

	Lease Reserve

		(unaudited)
Balance at March 1, 2008	$	1,574
Provision		194
Cash payments		(1,668)
Balance at November 29, 2008	$	100

4. Fair Value Measurements

On March 2, 2008, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (FAS 157). FAS 157 provides a single definition of fair value and a common framework for measuring fair value as well as new disclosure requirements for fair value measurements used in financial statements. Under FAS 157, fair value is 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. FAS 157 also specifies a fair value hierarchy based upon the observability of inputs used in valuation techniques. Observable inputs (highest level) reflect market data obtained from independent sources, while unobservable inputs (lowest level) reflect internally developed market assumptions. The Company has cash equivalents of short-term money market funds backed by U.S. Treasury securities. The Company also has short-term investments in U.S. Treasury Bills. The primary objective of our short-term investment activities 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 and short-term investments in active markets with sufficient volume and frequency. The adoption of FAS 157 did not have an impact on the Company s results of operations, financial condition or liquidity.

In February 2008, the Financial Accounting Standards Board (FASB) issued FSP FAS 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13 (FSP FAS 157-1). FSP FAS 157-1 amended FAS 157 to exclude from its scope SFAS No. 13, Accounting for Leases, and its related interpretive accounting pronouncements that address leasing transactions. Also in February 2008, the FASB issued FSP FAS 157-2, Effective Date of FASB Statement No. 157 (FSP FAS 157-2). FSP FAS 157-2 amended FAS 157 to defer the effective date of FAS 157 for non-financial assets and non-financial liabilities to fiscal years beginning after November 15, 2008 (fiscal 2010 for the Company), except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, at least annually. These include goodwill, other nonamortizable intangible assets, asset retirement obligations and liabilities recorded in accordance with SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities . The Company is currently assessing the impact of FAS 157 on its non-financial assets and non-financial liabilities measured at fair value on a nonrecurring basis, but does not expect it to have a significant impact on the Company s results of operations, financial condition or liquidity.

5. Recent Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (FAS 159). FAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The standard also establishes presentation and disclosure requirements designed to facilitate comparison between entities that choose different measurement attributes for similar types of assets and liabilities. If the fair value option is elected, the effect of the first remeasurement to fair value is reported as a cumulative effect adjustment to the opening balance of retained earnings. The statement is applied prospectively upon adoption. The Company did not elect fair value treatment for any assets or liabilities under FAS 159 as of March 2, 2008.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles (FAS 162). FAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP. FAS 162 directs the GAAP hierarchy to the entity, not the independent auditors, as the entity is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. FAS 162 is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to remove the GAAP hierarchy from the auditing standards. FAS 162 is not expected to have an impact on the Company s financial statements.

In May 2008, the FASB staff revisited Emerging Issues Task Force (EITF) issue No. 03-6 and issued FASB Staff Position (FSP) No. EITF 03-6-1, *Determining Whether Instruments Granted in Shared-Based Payment Transactions are Participating Securities.* FSP EITF 03-6-01 requires unvested share-based payments that entitle employees to receive nonrefundable dividends to also be considered participating securities, as defined in EITF 03-6. This FSP is effective for fiscal years beginning after December 15, 2008 and interim periods within those years with early adoption prohibited. The Company has not yet determined the impact if any, that FSP EITF 03-6-1 may have on its results of operations and financial position.

6. Common Stock

Pursuant to the Settlement Agreement entered into with UBS and Genesco (see Note 2), 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.

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. The Company suspended future quarterly dividends beginning with the thirteen weeks 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. The Company has declared dividends of $3,291,000 during the thirty-nine weeks ended November 29, 2008. A cash dividend of $1,645,000 was paid on December 15, 2008 to shareholders of record on November 28, 2008 and was accrued at November 29, 2008 in Other liabilities and accrued expenses.

On July 17, 2008, the Company s Board of Directors authorized a new stock repurchase program to repurchase up to 5 million shares of the Company s Class A common stock, or approximately 9% of the aggregate Class A and Class B common stock outstanding. Under the stock repurchase program, the Company may purchase shares through December 31, 2011. The Company believes that adoption of the repurchase program could be a viable use of excess cash. Such 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. The Company did not purchase any shares under the new stock repurchase program during the thirteen and thirty-nine weeks ended November 29, 2008.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This quarterly report on Form 10-Q may contain certain statements that we believe are, or may be considered to be, forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements generally can be identified by use of statements that include phrases such as believe , expect , anticipate , intend , plan , foresee , may , will , estimates , potential , continue or other similar words or phrases. Similarly, statements that describe our objectives, plans or goals also are forward-looking statements. All of these forward-looking statements are subject to risks and uncertainties that could cause our actual results to differ materially from those contemplated by the relevant forward-looking statement. The principal risk factors that could cause actual performance and future actions to differ materially from the forward-looking statements include, but are not limited to, fluctuations in oil prices causing changes in gasoline and energy prices, resulting in changes in consumer spending and utility and product costs; product demand and market acceptance risks; the effect of economic conditions including conditions resulting from the current turmoil in the financial services industry and depressed demand in the housing market; the effect of competitive products and pricing; the availability of products; management of growth; and the other risks detailed in the Company s Securities and Exchange Commission filings. Readers are urged to consider these factors carefully in evaluating the forward-looking statements. The forward-looking statements included in this Form 10-Q are made only as of the date of this report and we undertake no obligation to publicly update these forward-looking statements to reflect subsequent events or circumstances.

General

The following discussion and analysis should be read in conjunction with Management s Discussion and Analysis of Financial Condition, including Critical Accounting Policies, included in the Company s Annual Report on Form 10-K for the year ended March 1, 2008 (fiscal 2008). Unless otherwise noted, all amounts reflect the results of the Company s continuing operations and therefore Paiva store information and results have been excluded from the following information.

The following table sets forth store and square feet information of the Company by brand for each of the following periods:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
Number of Stores:	**November 29, 2008**	**December 1, 2007**	**November 29, 2008**	**December 1, 2007**
Finish Line				
Beginning of period	697	697	697	690
Opened	3	7	9	18
Closed	(1)	(3)	(7)	(7)
End of period	699	701	699	701
Man Alive				
Beginning of period	94	95	94	86
Opened		1		11
Closed	(1)		(1)	(1)
End of period	93	96	93	96
Total				
Beginning of period	791	792	791	776
Opened	3	8	9	29
Closed	(2)	(3)	(8)	(8)
End of period	792	797	792	797

	November 29, 2008	December 1, 2007
Square feet information as of:		
Finish Line		

Square feet	3,819,982	3,875,297
Average store size	5,465	5,528
Man Alive		
Square feet	321,194	331,909
Average store size	3,454	3,457
Total		
Square feet	4,141,176	4,207,206

Results of Operations

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

	Thirteen Weeks Ended			
Category	November 29, 2008 (unaudited)		December 1, 2007 (unaudited)	
Footwear	$ 200,037	78%	$ 203,073	76%
Softgoods	56,827	22%	65,626	24%
Total	$ 256,864	100%	$ 268,699	100%

	Thirty-Nine Weeks Ended			
Category	November 29, 2008 (unaudited)		December 1, 2007 (unaudited)	
Footwear	$ 730,381	81%	$ 714,697	80%
Softgoods	167,734	19%	179,712	20%
Total	$ 898,115	100%	$ 894,409	100%

The following table and subsequent discussion sets forth operating data of the Company as a percentage of net sales for the periods indicated below. All amounts reflect the results of the Company s continuing operations unless otherwise noted.

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	November 29, 2008	December 1, 2007	November 29, 2008	December 1, 2007
	(unaudited)		(unaudited)	
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales (including occupancy costs)	74.1	74.0	71.0	72.2
Gross profit	25.9	26.0	29.0	27.8
Selling, general and administrative expenses	31.5	31.0	28.0	28.4
Terminated merger-related costs		3.6		1.1
Operating (loss) income	(5.6)	(8.6)	1.0	(1.7)
Interest income, net	0.1	0.1	0.1	0.1
(Loss) income from continuing operations before income taxes	(5.5)	(8.5)	1.1	(1.6)
Income tax (benefit) expense	(2.1)	(3.4)	0.5	(0.5)
(Loss) income from continuing operations	(3.4)%	(5.1)%	0.6%	(1.1)%

THIRTEEN WEEKS ENDED NOVEMBER 29, 2008 COMPARED TO THIRTEEN WEEKS ENDED DECEMBER 1, 2007

Consolidated net sales decreased 4.4% to $256.9 million for the thirteen weeks ended November 29, 2008 from $268.7 million for the thirteen weeks ended December 1, 2007. This decrease in net sales was primarily attributable to a 3.6% decrease in comparable store net sales for the thirteen weeks ended November 29, 2008. The 3.6% decrease in comparable store net sales was attributable to a 3.3% decrease for Finish Line stores and a 6.8% decrease for Man Alive stores. Comparable footwear net sales for the thirteen weeks ended November 29, 2008 decreased 0.8% while comparable softgoods net sales decreased 12.2% for the comparable period. The 0.8% decrease in comparable footwear net sales was primarily a result of Man Alive exiting the footwear business at the beginning of the year as Finish Line increased 0.1%. The 12.2% decrease in comparable softgoods net sales was attributable to a 17.3% decrease in Finish Line comparable softgoods net sales partially offset by a 3.5% increase in Man Alive comparable softgoods net sales. The 3.5% increase in softgoods at Man Alive was primarily attributable to the transition in product assortment from hip-hop apparel to street wear offerings and a key item strategy including graphic t-shirts and a denim selection. In addition, by removing footwear sections from the selling space, Man Alive was able to offer more apparel than the prior year which assisted in improving their comparable softgoods net sales. Finish Line s decrease of 17.3% in softgoods is primarily the result of management s plan to reduce softgoods inventory levels and focus on increasing inventory turns and the return on investment.

Gross profit for the thirteen weeks ended November 29, 2008 was $66.6 million, a decrease of $3.3 million (4.7%) from $69.9 million for the thirteen weeks ended December 1, 2007. During this same period, gross profit decreased to 25.9% of net sales versus 26.0% for the prior year. The 0.1% decrease as a percentage of net sales was due to a 0.3% decrease in product margin as a percentage of net sales, partially offset by a 0.2% decrease in inventory shrink as a percentage of net sales. The 0.3% decrease in consolidated product margin was a result of markdowns at Man Alive for seasonal inventory offset partially by a 0.6% increase in product margin as a percentage of net sales at Finish Line due to continued focus on premium products and less markdowns due to lower inventory levels. The 0.2% decrease in inventory shrink as a percentage of net sales was a result of the Company s continued focus on inventory control processes along with the reduction in softgoods inventory which historically has a higher shrink rate than footwear. Occupancy costs, which are included in Costs of Sales, were flat as a percentage of net sales compared to prior year.

Selling, general and administrative expenses were $81.1 million (31.5% of net sales) for the thirteen weeks ended November 29, 2008 compared to $83.3 million (31.0% of net sales) for the thirteen weeks ended December 1, 2007. The 0.5% increase as a percentage of net sales was due primarily to deleveraging as a result of the negative comparable store net sales. The $2.2 million decrease is primarily attributable to the Company s continued efforts to evaluate and reduce selling, general and administrative expenses including expense reductions in store freight, store wages, and depreciation.

Terminated merger-related costs were $23,000 for the thirteen weeks ended November 29, 2008 compared to $9.7 million (3.6% of net sales) for the thirteen weeks ended December 1, 2007. The $9.7 million consisted of legal and professional fees related to the terminated merger with Genesco.

Net interest income was $0.2 million (0.1% of net sales) for the thirteen-weeks ended November 29, 2008 and December 1, 2007.

The Company s provision for income taxes reflects a benefit of $5.5 million for the thirteen weeks ended November 29, 2008 compared to a benefit of $9.0 million for the thirteen weeks ended December 1, 2007. The $3.5 million change was due to a loss from continuing operations before income taxes of $14.3 million for the thirteen weeks ended November 29, 2008 compared to a loss from continuing operations of $22.8 million for the thirteen weeks ended December 1, 2007 along with a decrease in the effective tax rate to 38.2% for the thirteen weeks ended November 29, 2008 from 39.6% for the thirteen weeks ended December 1, 2007.

Loss from continuing operations for the thirteen weeks ended November 29, 2008 was $8.8 million compared to loss from continuing operations of $13.8 million for the thirteen weeks ended December 1, 2007. Loss from continuing operations per diluted share was $0.16 for the thirteen weeks ended November 29, 2008 compared to loss from continuing operations per diluted share of $0.29 for the thirteen weeks ended December 1, 2007. Diluted weighted average shares outstanding were 53.9 million and 47.2 million for the thirteen weeks ended November 29, 2008 and December 1, 2007, respectively. The 6.7 million increase in diluted weighted average shares outstanding is primarily related to the issuance of 6.5 million shares to Genesco on March 7, 2008 pursuant to the Settlement Agreement (see Note 2 to the Consolidated Financial Statements).

THIRTY-NINE WEEKS ENDED NOVEMBER 29, 2008 COMPARED TO THIRTY-NINE WEEKS ENDED DECEMBER 1, 2007

Consolidated net sales increased 0.4% ($3.7 million) to $898.1 million for the thirty-nine weeks ended November 29, 2008 from $894.4 million for the thirty-nine weeks ended December 1, 2007. Of this increase, $3.6 million was attributable to sales from 9 stores that were not open during the thirty-nine weeks ended December 1, 2007, a $6.4 million increase in net sales from existing stores open only part of the thirty-nine weeks ended December 1, 2007, and a comparable store net sales increase of 1.1% for the thirty-nine weeks ended November 29, 2008. The consolidated net sales increase was partially offset by reduced sales from 14 closed stores since the thirty-nine weeks ended December 1, 2007 along with down time and reduced square footage related to remodeled/relocated stores. The 1.1% increase in comparable store net sales was attributable to a 1.4% increase for Finish Line stores partially offset by a 4.2% decrease for Man Alive stores. Comparable footwear net sales for the thirty-nine weeks ended November 29, 2008 increased 2.9% while comparable softgoods net sales decreased 6.2%. The 2.9% increase in comparable footwear net sales was primarily a result of a 7.6% increase in average selling price for footwear at Finish Line stores for the thirty-nine weeks ended November 29, 2008 offset partially by a 4.6% decrease in the footwear units sold during the thirty-nine weeks ended November 29, 2008 compared to the thirty-nine weeks ended December 1, 2007. The 6.2% decrease in comparable softgoods net sales was attributable to a 9.7% decrease in Finish Line comparable softgoods net sales offset partially by a 4.2% increase in Man Alive comparable softgoods net sales.

Gross profit for the thirty-nine weeks ended November 29, 2008 was $260.4 million (29.0% of net sales), an increase of $12.2 million (4.9%) over the $248.2 million (27.8% of net sales) for the thirty-nine weeks ended December 1, 2007. This 1.2% increase as a percentage of net sales was due to a 1.0% increase in margin for product sold and a 0.2% decrease in occupancy costs as a percentage of net sales. The 1.0% increase in product margin as a percentage of net sales is primarily a 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. The 0.2% decrease in occupancy costs as a percentage of net sales was a result of ongoing negotiations with landlords to reduce rent expense in connection with lease renewals and modifications.

Selling, general and administrative expenses decreased $1.7 million to $251.7 million (28.0% of net sales) for the thirty-nine weeks ended November 29, 2008 from $253.4 million (28.4% of net sales) for the thirty-nine weeks ended December 1, 2007. The 0.4% decrease as a percentage of net sales was due primarily to a decrease in freight expense of 0.4% as a percentage of net sales as a result of leveraging due to the increase in comparable store net sales of 1.1% for the thirty-nine weeks ended November 29, 2008 as well as reduced inventory levels and continually reviewing and adjusting our logistics strategy.

Terminated merger-related costs were $0.1 million for the thirty-nine weeks ended November 29, 2008 compared to $9.9 million (1.1% of net sales) for the thirty-nine weeks ended December 1, 2007. The $9.9 million consisted of legal and professional fees related to the terminated merger with Genesco.

Net interest income was $0.7 million (0.1% of net sales) for the thirty-nine weeks ended November 29, 2008 compared to net interest income of $0.9 million (0.1% of net sales) for the thirty-nine weeks ended December 1, 2007, a decrease of $0.2 million (25.0%). This decrease was due to lower interest rates earned during the thirty-nine weeks ended November 29, 2008 compared to the thirty-nine weeks ended December 1, 2007.

The Company s income tax expense was $4.1 million and its effective tax rate was 43.6% for the thirty-nine weeks ended November 29, 2008 compared to a benefit of $4.6 million and effective tax rate of 32.8% for the thirty-nine weeks ended December 1, 2007. The $8.7 million change was due to the increase in effective tax rate along with income from continuing operations before income taxes of $9.3 million for the thirty-nine weeks ended November 29, 2008 compared to a loss from continuing operations before incomes taxes of $14.1 million for the thirty-nine weeks ended December 1, 2007. The change in effective tax rate relates to state tax expense recorded in the thirty-nine weeks ended November 29, 2008 related to income tax contingencies pursuant to Financial Accounting Standards Board Interpretation No. 48, Accounting for Income Taxes and certain state tax rate changes.

Income from continuing operations for the thirty-nine weeks ended November 29, 2008 was $5.2 million compared to loss from continuing operations of $9.5 million for the thirty-nine weeks ended December 1, 2007. Income from continuing operations per diluted share was $0.10 for the thirty-nine weeks ended November 29, 2008 compared to loss from continuing operations per diluted share of $0.20 for the thirty-nine weeks ended December 1, 2007. Diluted weighted average shares outstanding were 54.5 million and 47.2 million for the thirty-nine weeks ended November 29, 2008 and December 1, 2007, respectively. Diluted weighted average shares outstanding for the thirty-nine weeks ended November 29, 2008 includes the impact of the 6.5 million shares issued to Genesco related to the Settlement Agreement (see Note 2 to the Consolidated Financial Statements).

Liquidity and Capital Resources

The Company used $4.5 million of net cash in its operating activities during the thirty-nine weeks ended November 29, 2008 compared to $22.3 million used during the thirty-nine weeks ended December 1, 2007.

Consolidated merchandise inventories were $293.2 million at November 29, 2008 compared to $268.3 million at March 1, 2008 and $338.7 at December 1, 2007. On a comparable per square foot basis, consolidated merchandise inventories decreased 12.0% at November 29, 2008 compared to December 1, 2007 and were 10.4% higher than at March 1, 2008. The 12.0% decrease per square foot compared to December 1, 2007 is a result of management s plan to reduce inventory levels and increase inventory turns.

The Company s working capital was $250.6 million at November 29, 2008, which was a $15.9 million increase from $234.7 million at March 1, 2008.

The Company used net cash in its investing activities of $37.1 million for the thirty-nine weeks ended November 29, 2008 compared to net cash used in investing activities of $25.1 million for the thirty-nine weeks ended December 1, 2007. The $37.1 million used in the thirty-nine weeks ended November 29, 2008 was the result of capital expenditures of $13.1 million and $24.9 million of purchases of short-term investments.

At November 29, 2008, the Company had cash and cash equivalents of $30.2 million, short-term investments of $24.9 million, and no interest bearing debt. Cash equivalents are primarily invested in U.S. treasury instruments with daily liquidity. The short-term investments are U.S. Treasury Bills.

To date, for the year ending February 28, 2009, the Company has opened nine Finish Line stores and remodeled 15 existing Finish Line stores. The Company has not opened any new Man Alive stores or remodeled any existing Man Alive stores this fiscal year. The Company has closed seven Finish Line stores and one Man Alive store during the first three quarters and expects to close another 10-15 stores in the fourth quarter between both concepts. There are no planned remodels or additional new stores to be opened for either Finish Line or Man Alive for the remainder of the fiscal year. In addition, the Company has various other corporate capital and technology projects. The Company expects capital expenditures for the current fiscal year to approximate $15.0 to $17.0 million. In fiscal 2010, the Company currently plans to open 10-15 new Finish Line stores and no new Man Alive stores. The Company also currently plans to remodel 15-20 Finish Line stores and 4 Man Alive stores. The Company would also expect to close between 10-15 Finish Line stores and 5-10 Man Alive stores. Management believes that cash on hand, short-term investments, operating cash flow and the Company s existing $75.0 million bank facility, which expires on February 25, 2010, will provide sufficient capital to complete the Company s current store expansion program and to satisfy the Company s working capital requirements in the foreseeable future.

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.

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. The Company suspended future quarterly dividends beginning with the thirteen weeks 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. The Company has declared dividends of $3,291,000 during the thirty-nine weeks ended November 29, 2008. A cash dividend of $1,645,000 was paid on December 15, 2008 to shareholders of record on November 28, 2008 and was accrued at November 29, 2008 in Other liabilities and accrued expenses.

On July 17, 2008, the Company s Board of Directors authorized a new stock repurchase program to repurchase up to 5 million shares of the Company s Class A common stock, or approximately 9% of the aggregate Class A and Class B common stock outstanding. Under the stock repurchase program, the Company may purchase shares through December 31, 2011. The Company believes that adoption of the repurchase program could be a viable use of excess cash. Such 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. The Company did not purchase any shares under the new stock repurchase program during the thirteen and thirty-nine weeks ended November 29, 2008.

Discontinued Operations of 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 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 results of operations of Paiva have been classified in discontinued operations for all periods presented. 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):

	Thirteen Weeks Ended		**Thirty-Nine Weeks Ended**	
	November 29, 2008	**December 1, 2007**	**November 29, 2008**	**December 1, 2007**
	(unaudited)		**(unaudited)**	
Net sales	$	$ 1,642	$	$ 7,230
Loss from discontinued operations	$	$ (3,594)	$ (202)	$ (20,285)
Income tax benefit		(1,405)	(79)	(8,122)
Loss from discontinued operations, net of income tax	$	$ (2,189)	$ (123)	$ (12,163)

For the thirteen weeks ended December 1, 2007, the loss from discontinued operations of Paiva included operating losses as well as $3.1 million of lease expense resulting from $3.9 million of estimated future rent payments, including estimated lease termination payments, offset by $0.8 million of reversal of step rent liability previously included within Deferred credits from landlords on the Consolidated Balance Sheets. For the thirty-nine weeks ended December 1, 2007, the loss from discontinued operations of Paiva included operating losses as well as $11.5 million related to the impairment of long-lived assets and $4.0 million of lease expense resulting from $5.2 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.

Based on the Company s current estimates as of November 29, 2008, future lease payments, including estimated lease termination payments, and repayment of unamortized construction allowances are expected to result in a total cash outlay of approximately $0.1 million each. Unamortized construction allowances are included within Deferred credits from landlords. The Company anticipates that all cash payments will occur within the next 4 months.

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

	Lease Reserve (unaudited)
Balance at March 1, 2008	$ 1,574
Provision	194
Cash payments	(1,668)
Balance at November 29, 2008	$ 100

Contractual Obligations

The Company s contractual obligations primarily consist of long-term debt, operating leases and purchase orders for merchandise inventory. There have been no significant changes to the Company s contractual obligations identified in the Company s Annual Report on Form 10-K for the fiscal year ended March 1, 2008, other than the payment on March 7, 2008 of $39.0 million pursuant to the Settlement Agreement to Genesco and those which occur in the normal course of business (primarily changes in the Company s merchandise inventory related to purchase obligations, which fluctuate throughout the year as a result of the seasonal nature of the Company s operations, and additional operating leases entered into due to store openings).

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to adopt accounting policies related to estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period, as well as the related disclosure of contingent assets and liabilities at the date of the financial statements. On an ongoing basis, management evaluates its accounting policies, estimates and judgments, including those related to inventories, long lived assets and contingencies. Management bases its estimates and judgments on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

There have been no material changes to the critical accounting policies and estimates disclosed in the Company s Annual Report on Form 10-K for the fiscal year ended March 1, 2008.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For a discussion of the Company s market risk associated with interest rates as of March 1, 2008 see Quantitative and Qualitative Disclosures about Market Risk in Item 7A of Part II of the Company s Annual Report on Form 10-K for the fiscal year ended March 1, 2008. For the thirty-nine weeks ended November 29, 2008, there has been no significant change in related market risk factors.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures. With the participation of our Chief Executive Officer and Interim Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), as of the end of the period covered by this report. Based upon such evaluation, our Chief Executive Officer and Interim Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures were effective in ensuring that (i) information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities Exchange Commission s rules and forms and (ii) information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Internal Control Over Financial Reporting. There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

The Company is subject from time to time, to certain legal proceedings and claims in the ordinary course of conducting its business. Although it is not possible to predict with certainty the eventual outcome of any litigation, in the opinion of management, the Company s legal proceedings are not expected to have a material adverse effect on the Company s financial position or results of operations.

ITEM 1A: RISK FACTORS

Risk factors that affect the Company s business and financial results are discussed in Item 1A: Risk Factors in the Company s Annual Report on Form 10-K for the fiscal year ended March 1, 2008. There has been no significant change to identified risk factors for the thirty-nine weeks ended November 29, 2008.

ITEM 2: UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5: OTHER INFORMATION

None.

ITEM 6: EXHIBITS

(a) Exhibits

10.1	Second Amendment effective as of December 12, 2008, to the Credit Agreement, dated as of February 25, 2005, among The Finish Line, Inc., The Finish Line Distribution, Inc., The Finish Line USA, Inc. and Finish Line Transportation Co., Inc. as borrowers, certain lenders and National City Bank of Indiana, as Agent
10.2	Retirement Agreement between The Finish Line, Inc. and Alan H. Cohen (incorporated by reference to Exhibit 10.1 to Registrant s Form 8-K filed with the Securities and Exchange Commission on December 2, 2008)
31.1	Certification of Chief Executive Officer Pursuant to Exchange Act Rule 13a-14(a) and 15d-14(a), as amended
31.2	Certification of Interim Chief Financial Officer Pursuant to Exchange Act Rule 13a 14(a) and 15d-14(a), as amended
32	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

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

THE FINISH LINE, INC.

Date: January 7, 2009

By: /s/ Steven J. Schneider
Steven J. Schneider

President, Chief Operating Officer, and Interim Chief Financial Officer

Exhibit Index

Exhibit **Number**	**Description**
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