Finish Line

SPORT.LIFE.STYLE

FINL» 2002 FINISH LINE ANNUAL REPORT

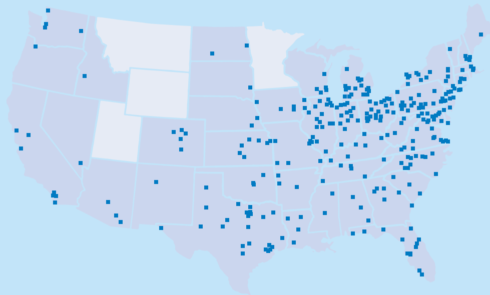
02

OUR MISSION

FINISH LINE WILL PROVIDE THE BEST SELECTION OF SPORT INSPIRED FOOTWEAR, APPAREL AND ACCESSORIES TO FIT THE FAST CULTURE OF ACTION ADDICTED INDIVIDUALS

449 STORES NATIONWIDE

Finish Line, Inc. is a leading athletic retailer specializing in brand name footwear, apparel, and accessories. Finish Line began operations in 1976 in Indianapolis, Indiana, and at fiscal year-end 2002 served customers in 43 states through 449 stores and online. In every single Finish Line you'll find an outstanding selection of product built for Sport.Life.Style.

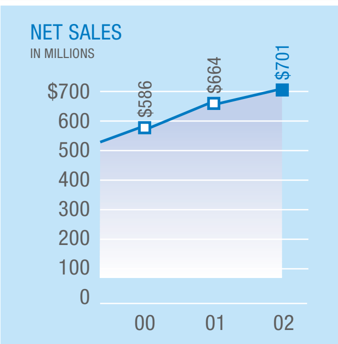


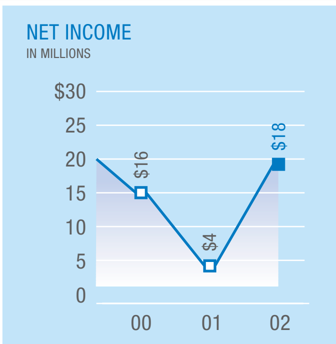
ALABAMA
Birmingham
Dothan
Montgomery
ARIZONA
Chandler
Mesa
Phoenix
Scottsdale
Sierra Vista
Tucson
ARKANSAS
Fayetteville
Fort Smith
Little Rock
N. Little Rock
CALIFORNIA
Cerritos
Culver City
Fairfield
Los Angeles
Mission Viejo
Montclair
Montebello
National City
Northridge
Roseville
Salinas
San Diego
Stockton
West Covina
Westminster
COLORADO
Boulder
Broomfield
Colorado Springs
Denver
Fort Collins
Greeley
Littleton
CONNECTICUT
Meriden
Trumbull
Waterbury
Waterford
DELAWARE
Wilmington
FLORIDA
Altamonte Springs
Brandon
Clearwater
Crystal River
Daytona Beach
Ft. Myers
Jacksonville
Lakeland
Naples
Ocoee
Orange Park
Orlando
Panama City
Pensacola
Port Richey
Sanford
St. Petersburg
Tallahassee
Tampa
GEORGIA
Alpharetta
Athens
Atlanta
Augusta
Buford
Decatur
Douglasville
Duluth
Kennesaw
Lithonia
Macon
Morrow
Savannah
Union City
IDAHO
Boise
ILLINOIS
Alton
Aurora
Bloomingdale
Bloomington
Bourbonnais
Calumet City
Carbondale
Champaign
Chicago
Chicago Ridge
Danville
Evergreen Park
Fairview Heights
Forsyth
Gurnee
Joliet
Lincolnwood
Lombard
Marion
Matteson
Moline
Niles
North Riverside
Orland Park
Peoria
Peru
Rockford
Schaumburg
Skokie
Springfield
Sterling
Vernon Hills
West Dundee
INDIANA
Anderson
Bloomington
Carmel
Elkhart
Evansville
Fort Wayne
Greenwood
Indianapolis
Kokomo
Lafayette
Marion
Merrillville
Michigan City
Mishawaka
Muncie
Richmond
South Bend
Terre Haute
IOWA
Cedar Rapids
Coralville
Davenport
Des Moines
Dubuque
Sioux City
West Des Moines
KANSAS
Hutchinson
Manhattan
Olathe
Overland Park
Salina
Topeka
Wichita
KENTUCKY
Ashland
Bowling Green
Florence
Lexington
Louisville
Paducah
LOUISIANA
Alexandria
Bossier City
Lake Charles
Monroe
MAINE
Bangor
MARYLAND
Baltimore
Bethesda
Columbia
Cumberland
Forestville
Frederick
Glen Burnie
Hagerstown
Laurel
Owings Mills
Salisbury
Towson
Waldorf
MASSACHUSETTS
Brockton
Hanover
Holyoke
Leominster
North Attleboro
Saugus
Taunton
MICHIGAN
Adrian
Auburn Hills
Battle Creek
Bay City
Benton Harbor
Burton
Detroit
Flint
Fort Gratiot
Grandville
Harper Woods
Holland
Lansing
Midland
Monroe
Muskegon
Portage
Saginaw
Taylor
Traverse City
Waterford
MISSISSIPPI
Ridgeland
Tupelo
MISSOURI
Cape Girardeau
Chesterfield
Florissant
Independence
Joplin
Kansas City
Springfield
St. Ann
St. Louis
St. Peters
NEBRASKA
Lincoln
Omaha
NEVADA
Las Vegas
NEW HAMPSHIRE
Concord
Manchester
Newington
Salem
NEW JERSEY
Deptford
Eatontown
Freehold
Jersey City
Lawrenceville
Paramus
Phillipsburg
Rockaway
Vineland
Voorhees
NEW MEXICO
Albuquerque
NEW YORK
Albany
Bay Shore
Blasdell
Buffalo
Clay
DeWitt
Horseheads
Ithaca
Lakewood
Massapequa
Middletown
Nanuet
Niagara Falls
Poughkeepsie
Rochester
Saratoga Springs
Schenectady
Staten Island
Syracuse
Victor
Williamsville
NORTH CAROLINA
Asheville
Burlington
Cary
Charlotte
Concord
Durham
Gastonia
Greensboro
Hickory
High Point
Pineville
Raleigh
Rocky Mount
Wilmington
Winston-Salem
NORTH DAKOTA
Bismarck
Grand Forks
OHIO
Akron
Ashtabula
Beaver Creek
Canton
Cincinnati
Cleveland
Columbus
Dayton
Dublin
Elyria
Findlay
Franklin
Heath
Lancaster
Lima
Mansfield
Marion
Mentor
N. Olmsted
New Philadelphia
Niles
Parma
Piqua
Reynoldsburg
Richmond Heights
Sandusky
Springfield
St. Clairsville
Toledo
OKLAHOMA
Midwest City
Norman
Oklahoma City
Tulsa
OREGON
Portland
PENNSYLVANIA
Altoona
Bensalem
Bloomsburg
Butler
Camp Hill
Chambersburg
Erie
Exton
Greensburg
Hanover
Indiana
Johnstown
Lancaster
Media
Monaca
North Wales
Pennsdale
Philadelphia
Pittsburgh
Plymouth Meeting
Scranton
Uniontown
Washington
West Mifflin
York
SOUTH CAROLINA
Charleston
Columbia
Greenville
N. Charleston
SOUTH DAKOTA
Sioux Falls
TENNESSEE
Antioch
Chattanooga
Clarksville
Franklin
Goodlettsville
Johnson City
Memphis
Nashville
TEXAS
Abilene
Amarillo
Arlington
Austin
Beaumont
Cedar Park
Dallas/Fort Worth
El Paso
Frisco
Houston
Humble
Hurst
Irving
Katy
Killeen
Laredo
Longview
Mesquite
Midland
Plano
Richardson
San Angelo
San Antonio
Sherman
Sugar Land
The Woodlands
Tyler
Waco
Wichita Falls
VERMONT
Burlington
VIRGINIA
Alexandria
Chesapeake
Christiansburg
Colonial Heights
Danville
Dulles
Fredericksburg
Glen Allen
Harrisonburg
Lynchburg
Newport News
Norfolk
Richmond
Roanoke
Springfield
Virginia Beach
Winchester
WASHINGTON
Bellingham
Seattle
Spokane
Tacoma
WEST VIRGINIA
Barboursville
Bridgeport
Charleston
Martinsburg
Morgantown
WISCONSIN
Brookfield
Green Bay
Greendale
Janesville
Madison
Milwaukee
Racine
Wauwatosa

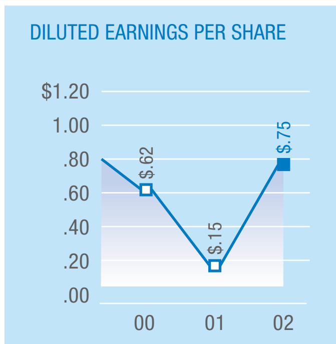
2002 FINANCIAL HIGHLIGHTS

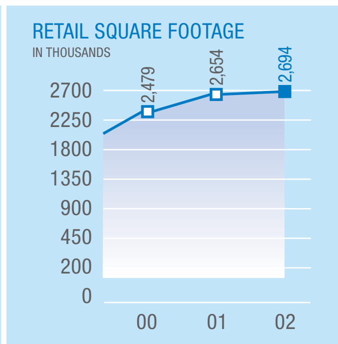
(Dollars in thousands, except per share data)	Fiscal 2002	Fiscal 2001	Fiscal 2000
Net sales	$ 701,426	$ 663,906	$ 585,963
Operating income	27,215	4,975	23,185
Operating income as a % of net sales	3.9%	0.8%	4.0%
Net income	18,448	3,745	15,607
Net income as a % of net sales	2.6%	0.6%	2.7%
Diluted earnings per share	$ .75	$ .15	$ .62
Number of stores open at end of period	449	436	409
Total retail square footage at end of period	2,694,380	2,653,886	2,478,930
Average store size	6,001	6,087	6,061
Total assets	$ 328,347	$ 308,868	$ 289,095
Cash and marketable securities	77,853	51,935	24,481
Total debt	—	—	—
Total stockholders' equity	243,954	226,747	222,392

The Company's fiscal year ends on the Saturday nearest the end of February. As used in this Report, "fiscal 1998," "fiscal 1999," "fiscal 2000," "fiscal 2001" and "fiscal 2002" refer to the Company's fiscal years ended February 28, 1998; February 27, 1999; February 26, 2000; March 3, 2001 and March 2, 2002 respectively. "Fiscal 2003" and "fiscal 2004" refer to the Company's fiscal years ended March 1, 2003 and February 28, 2004, respectively.



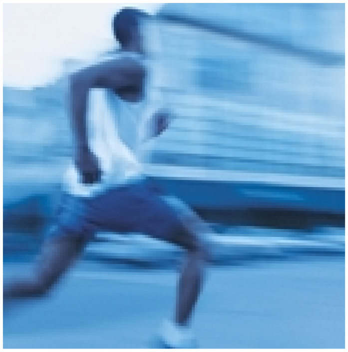






WE ARE


SPORT.LIFE.STYLE



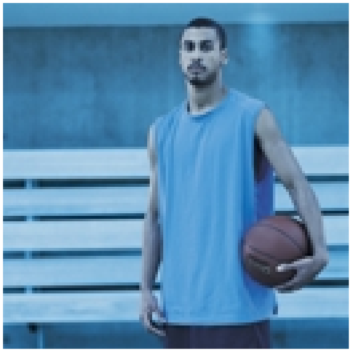
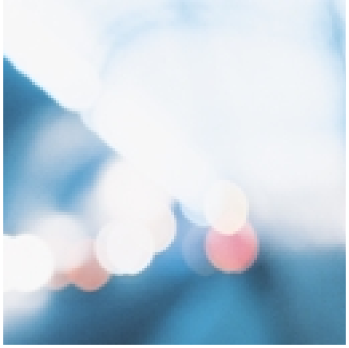







SPORT

It’s in our blood. Action. Performance. The game.
It’s where we live. At Finish Line, sport is the foundation for
everything we do. It’s reflected in our products. It’s echoed
in our stores. It's defined by our brands and our people.
No matter how the game may change, we will be a part of it.

HERITAGE

PERFORMANCE

AUTHENTICITY




To Union Station

At Finish Line, it's about more than what happens between buzzers.
It's what happens between sunrise and sunset. It's being there
for a customer who is addicted to action. A customer who is fast,
online, mobile, digital, energetic, and athletic. Someone who
isn't waiting to be defined, but searches for definition.

LIFE

REAL

ACTION ADDICTED

FAST CULTURE

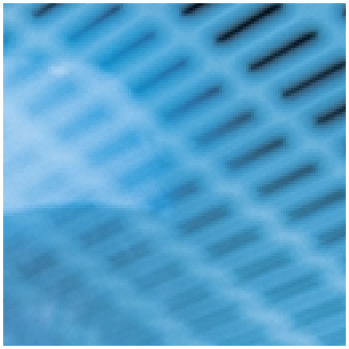
Our customer gets it. What's cool, what's not. They know what's real, and where to get it. Nobody brings it all together the way we can. It's about having the right stuff, having the best selection. It's color and cut, performance and point-of-view. It's about self-expression, and being true to yourself.

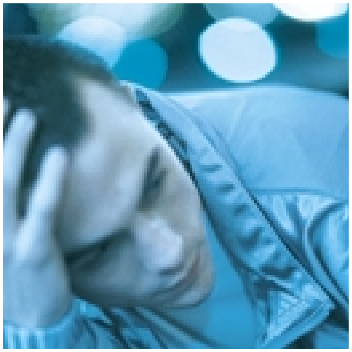
STYLE

FASHIONABLE

FUSION OF INFLUENCE

INDIVIDUAL






finish line

Best selection goes far beyond the product on the wall. It's illustrated in a thorough understanding of our customer and reflected in the brands, styles, and colors we stock. We have to carry what they're looking for.

SELECTION

Our buyers and merchandisers are out in front of the trends, creating a story that's unique to Finish Line. Product our customers are hungry for. Grounded in Sport. True to Life. Always in Style.


MEN
02 SPRIN
CLASSIC
BASKETBALL
BASKETBALL
CLASSICS


WOMEN
SPORT.LIFE.STYLE
SLIP ON
RNG

RIGHT STYLES

MORE CHOICES

PERFECT FIT


Finish Line
MEN
YOUTH

Finish Line


RNG

TRAINING
CLASSICS

2002 FINANCIALS

SPORT.LIFE.STYLE

As I look back at Fiscal 2002, it is clear to me that this was a pivotal year for Finish Line. We began the year with a plan to make changes that would position our Company for success in both the short and long term. As part of our repositioning plan, our goals were to reduce the amount of aged inventory, close under-performing stores, continue our footwear sales momentum, and make dramatic changes in our apparel program. I am happy to report that we accomplished these goals and are well positioned for future growth.

Financial Highlights of FY2002. The financial results of our repositioning plan were apparent in Fiscal 2002. For this year net sales were $701,426,000, an increase of 6% over last year. Comparable store net sales increased 4% (52 weeks vs. 52 weeks) versus a 1% comp gain last year.

During the year we maintained our sales momentum in footwear with a 7% increase in comparable sales and with strong growth in all three sectors of our business: men's, women's, and kids'. Additionally, for the first time in 15 quarters, our apparel/accessory business reported a positive comparable sales gain in the fourth quarter.

Net income for Fiscal 2002 was $18.4 million, or $.75 per diluted share, compared to net income of $3.7 million, or $.15 per diluted share, for Fiscal 2001. On a comparable basis (after excluding repositioning and last year's extra week) net income increased 23% over last year.

Keys to Success in FY2002. There were several factors that helped us achieve improved performance this past year. One was our persistent marketing focus on new products and key categories in our stores rather than leading with "price or sale" as our primary marketing message. Our core consumers responded positively to this positioning, allowing us to differentiate ourselves from our competition and to sell more new product at higher margins.

Additionally, our decision in Fiscal 2002 to reduce aged inventory had a dramatic effect on our performance and should continue to do so in years to come. During the year we reduced our aged inventory (product over one year old) from approximately 13% of our total inventory to the low single digits. By cleaning up our aged product, we have been able to increase sales with less inventory while increasing our product turns.

Another key to our success this past fiscal year was closing 13 under-performing stores, which has helped increase our profitability.

Positioned for Growth. During the year we made changes to strengthen our merchandise team, especially in the apparel category, to better position us for future growth. These changes included promotions from within as well as important new hires who have substantial apparel retailing backgrounds. These personnel changes were made without interrupting the positive momentum that has characterized our footwear business over the last few years.

One of the first steps taken by the new team was a renewed focus on our primary customer by defining a more specific product and marketing edit point. This edit point is directed at a young, college-aged consumer who is "action addicted." It is an aspirational target that younger kids emulate, and that our older, active consumers strive to maintain. We feel these action addicted teens are more multicultural than past generations, are connected online, fear boredom, and are always on the move. They are redefining sport and fashion for their generation.

This focus became the foundation for creating our new private brand apparel line Finish Line Blue Label which launched in March 2002. It has also provided our buyers and vendors with a clearer vision of product that is relevant to our core consumer. This new leadership and vision have already produced improved results that we expect to continue in Fiscal 2003 and beyond.

Redefined Mission. Better understanding our core customer and current market trends, we rethought our Mission Statement taking into account this new aspirational target. We have decided to launch a new branding effort in Fiscal 2003 to communicate our new positioning to consumers and employees.

Our mission is to provide the best selection of sport inspired footwear, apparel and accessories to fit the fast culture of action addicted individuals.

We are confident this mission more clearly defines Finish Line and where we are headed. Our market research tells us that an important point-of-difference with our competitors is our greater product selection — and we expect to enhance this in the future with even stronger and more compelling product and visual merchandising. “Best” selection does not necessarily mean the “most,” but it does mean having the “right” selection in the right stores. Sport inspired product is also important to Finish Line. This is our heritage, and every product we carry should be grounded in athletics.

Apparel and accessories are an integral part of this mission as well. We know we have to increase our store productivity, and to achieve this we have to be more than just a great athletic footwear store. No other athletic specialty retailer in the mall can cross-merchandise all three categories (footwear, apparel, and accessories) under one roof like Finish Line.

Finally, we recognize that action addicted consumers create a very fast culture with fashion trends that can emerge overnight from any city in the country. We believe we have the flexibility and vision to remain ahead of these trends and to continue our sales momentum in the future.

Opportunities for FY2003. Finish Line is poised for growth in Fiscal 2003. We have strengthened our merchandising team, we have reduced the average age of our inventory, and we have taken our proprietary brand Finish Line Blue Label to market.

All these changes have further strengthened our successful relationships with key vendors. They appreciate our marketing approach to their products and brands and now better understand Finish Line’s consumer and new edit point. This will be beneficial as we continue to develop exclusive product offerings with these partners and further distinguish ourselves from our competition.

As we enter into the new fiscal year, we are well positioned in the mall to gain market share in the women’s and kids’ categories. Our stores and shopping environment are appealing to women and kids, as well as men, and we intend to increase our focus on the women’s and kids’ businesses with enhanced and improved product offerings.

Throughout Fiscal 2003 we intend to fortify our new positioning and mission in the marketplace. Through an enhanced brand marketing campaign we have developed a consistent, relevant message that speaks to the action addicted consumer at all points of contact, including in-store, online, and in our advertising.

Fiscal 2002 was a successful transition year for Finish Line. I am confident that with the continued dedication and hard work of all Finish Line associates combined with our new consumer focus and merchandising strategies we will maintain this positive momentum into next year.

Sincerely,

Alan H. Cohen
President and CEO, Finish Line, Inc.

SELECTED FINANCIAL DATA

(In thousands, except per share and store operating data) *Year Ended:*	March 2, 2002	March 3, 2001	February 26, 2000	February 27, 1999	February 28, 1998
Income Statement Data:					
Net sales	$ 701,426	$ 663,906	$ 585,963	$ 522,623	$ 438,911
Cost of sales (including occupancy expenses)	508,533	491,527	423,505	373,170	303,809
Gross profit	192,893	172,379	162,458	149,453	135,102
Selling, general and administrative expenses	167,681	156,820	139,273	117,507	94,303
Repositioning and asset impairment charges (reversals)	(2,003)	10,584	—	—	—
Operating income	27,215	4,975	23,185	31,946	40,799
Interest income — net	1,610	970	826	1,421	2,495
Income before income taxes	28,825	5,945	24,011	33,367	43,294
Income taxes	10,377	2,200	8,404	12,680	16,560
Net income	$ 18,448	$ 3,745	$ 15,607	$ 20,687	$ 26,734
Earnings Per Share Data:					
Basic earnings per share	$ .76	$ .15	$ .63	$ .81	$ 1.03
Diluted earnings per share	$ .75	$ .15	$ .62	$ .80	$ 1.02
Share Data(1):					
Weighted-average shares	24,312	24,458	24,848	25,541	25,963
Diluted weighted-average shares	24,683	24,663	25,039	25,833	26,317
Selected Store Operating Data:					
Number of stores:					
Opened during period	27	34	55	59	53
Closed during period	14	7	4	3	2
Open at end of period	449	436	409	358	302
Total square feet (2)	2,694,380	2,653,886	2,478,930	2,095,264	1,586,520
Average square feet per store (2)	6,001	6,087	6,061	5,853	5,253
Net sales per square foot for comparable stores (3)	$ 262	$ 256	$ 272	$ 310	$ 345
Increase (decrease) in comparable store net sales (4)	4.5%	1.3%	(2.6)%	(1.7)%	5.6%
Balance Sheet Data:					
Working capital	$ 153,846	$ 133,640	$ 124,898	$ 106,661	$ 120,822
Total assets	328,347	308,868	289,095	278,555	255,978
Total debt	—	—	—	—	—
Stockholders' equity	243,954	226,747	222,392	208,679	197,122

(1) Consists of weighted-average common and common equivalent shares outstanding for the period.
(2) Computed as of the end of each fiscal period.
(3) Calculated excluding sales for the 53rd week of fiscal 2001.
(4) Calculated using those stores that were open for the full current fiscal period and were also open for the full prior fiscal period.

Year Ended:	March 2, 2002	March 3, 2001	February 26, 2000
Income Statement Data:			
Net sales	100.0%	100.0%	100.0%
Cost of sales (including occupancy expenses)	72.5	74.0	72.3
Gross profit	27.5	26.0	27.7
Selling, general and administrative expenses	23.9	23.6	23.7
Repositioning and asset impairment charges (reversals)	(0.3)	1.6	—
Operating income	3.9	0.8	4.0
Interest income—net	0.2	0.1	0.1
Income before income taxes	4.1	0.9	4.1
Income taxes	1.5	0.3	1.4
Net income	2.6%	0.6%	2.7%

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.

The table above sets forth operating data of the Company as a percentage of net sales for the periods indicated.

Critical Accounting Policies. Management's discussion and analysis of financial condition and results of operations are based upon the consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgements 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 inventory, the potential impairment of long-lived assets and the valuation of repositioning reserve. 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 judgements 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 its more significant judgements and estimates used in preparation of its consolidated financial statements.

Valuation of Inventory. 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 a markdown reserve for merchandise that will be sold below cost. The markdown reserves value is based upon historical information and assumptions about future demand and market conditions. It is possible that changes to the markdown reserve could be required in future periods due to changes in market conditions.

Impairment of Long-Lived Assets. The Company evaluates the recoverability of its long-lived assets in accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," which generally requires the Company to assess these assets for recoverability whenever events or changes in circumstance indicate that the carrying amounts of long-lived tangible assets may not be recoverable. The Company considers historical performances and future estimated results in its evaluation of potential impairment and then compares the carrying amount of the asset to the estimated non-discounted future cash

Quarter Ended: *(Dollars in thousands, except per share data)*	June 2, 2001		September 1, 2001		December 1, 2001		March 2, 2002	
Net sales	$ 160,825	100.0%	$ 196,776	100.0%	$ 142,266	100.0%	$ 201,559	100.0%
Cost of sales (including occupancy expenses)	120,370	74.9	137,922	70.1	107,297	75.4	142,944	70.9
Gross profit	40,455	25.1	58,854	29.9	34,969	24.6	58,615	29.1
Selling, general and administrative expenses	39,796	24.7	43,494	22.1	38,748	27.3	45,643	22.7
Repositioning and asset impairment charges (reversals) – net	(660)	(.4)	—	—	(549)	(.4)	(794)	(.4)
Operating income (loss)	1,319	.8	15,360	7.8	(3,230)	(2.3)	13,766	(6.8)
Interest income – net	480	.3	458	.2	387	.3	285	.2
Income (loss) before income taxes	1,799	1.1	15,818	8.0	(2,843)	(2.0)	14,051	7.0
Income taxes (benefit)	648	.4	5,694	2.9	(1,023)	(.7)	5,058	2.5
Net income (loss)	$ 1,151	.7%	$ 10,124	5.1%	$ (1,820)	(1.3)%	$ 8,993	4.5%
Basic earnings (loss) per share	$ .05		$ .41		$ (.08)		$ .37	
Diluted earnings (loss) per share	$ .05		$ .41		$ (.07)		$ .36	

Quarter Ended: *(Dollars in thousands, except per share data)*	May 27, 2000		August 26, 2000		November 25, 2000		March 3, 2001	
Net sales	$ 146,657	100.0%	$ 190,542	100.0%	$ 134,503	100.0%	$ 192,204	100.0%
Cost of sales (including occupancy expenses)	106,013	72.3	137,296	72.1	101,378	75.4	146,840	76.4
Gross profit	40,644	27.7	53,246	27.9	33,125	24.6	45,364	23.6
Selling, general and administrative expenses	34,846	23.8	42,207	22.1	37,404	27.8	42,363	22.0
Repositioning and asset impairment charges	—	—	—	—	—	—	10,584	5.5
Operating income (loss)	5,798	3.9	11,039	5.8	(4,279)	(3.2)	(7,583)	(3.9)
Interest income – net	223	.2	169	.1	328	.2	250	.1
Income (loss) before income taxes	6,021	4.1	11,208	5.9	(3,951)	(3.0)	(7,333)	(3.8)
Income taxes (benefit)	2,228	1.5	4,147	2.2	(1,462)	(1.1)	(2,713)	(1.4)
Net income (loss)	$ 3,793	2.6%	$ 7,061	3.7%	$ (2,489)	(1.9)%	$ (4,620)	(2.4)%
Basic earnings (loss) per share	$ .16		$ .29		$ (.10)		$ (.19)	
Diluted earnings (loss) per share	$ .15		$ .29		$ (.10)		$ (.19)	

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.

Repositioning Plan Reserve. During fiscal 2001, the Company recorded reserves in connection with its repositioning plan. The remaining reserve at March 2, 2002 relating to lease obligations for planned store closings requires the use of estimates. Though the Company believes that these estimates accurately reflect the anticipated costs of the repositioning plan, actual results may differ.

Fiscal 2002 Compared to Fiscal 2001. Net sales for fiscal 2002 were $701.4 million, an increase of $37.5 million or 5.7% over fiscal 2001. Of this increase, $14.4 million was attributable to an increase from the 34 existing stores open only part of fiscal 2001, and $20.4 million was from an increase in the number of stores open during the period from 436 at the end of fiscal 2001 to 449 at the end of fiscal 2002. The balance of the increase in net sales was attributable to a comparable store net sales increase of 4.5% in fiscal 2002, which was partially offset by fiscal 2002 containing seven less days than fiscal 2001. Comparable net footwear sales increased 7.1% for fiscal 2002 while comparable net activewear and accessories sales decreased 6.1%. Activewear and accessories were negatively effected by the transition to new merchandise strategies undertaken by the new apparel buying team, however in the fourth quarter of 2002 comparable activewear and accessories sales increased 2.0%.

Gross profit, which includes product margin less store occupancy costs, for fiscal 2002 was $192.9 million. Excluding the net effect of non-recurring charges of $288,000 in fiscal 2002 and $9.2 million in fiscal 2001 included in cost of sales representing inventory writedowns associated with the repositioning plan, gross profit was $193.2 million in fiscal 2002 and $181.6 million in fiscal 2001. This was an increase of approximately $11.6 million or 6.4% over fiscal 2001, and an increase of approximately 0.2% as a percent of net sales. This 0.2% increase is due to a 0.3% increase in margin for product sold, partially offset by a 0.1% increase in occupancy costs as a percentage of net sales.

Selling, general and administrative expenses were $167.7 million, an increase of $10.9 million or 6.9% over fiscal 2001, and increased to 23.9% from 23.6% as a percentage of net sales. The dollar increase was primarily attributable to the operating costs related to the 27 additional stores opened during 2002. The increase as a percentage of net sales is a result of the fiscal 2001 benefiting from an extra week due to the 53-week retail calendar which added approximately $14.0 million in sales to fiscal 2001.

In March 2001, the Company approved a repositioning plan (the "Plan") and recorded pre-tax non-recurring repositioning and asset impairment charges totaling $19.8 million in connection with additional inventory markdowns, lease costs and asset impairment charges for 17 planned store closings, and asset impairment charges for 14 identified under-performing stores.

During 2002 the Company completed its repositioning plan related to aged inventory and recognized an additional $288,000 of expense related to inventory markdowns which was recorded as a component of cost of sales. The repositioning markdown reserve balance is zero as of March 2, 2002.

In connection with the store closings, the Company established a reserve for future lease payments after store closures of $3.8 million all of which was included in accrued expenses at March 3, 2001. The accrued expense was reduced $2.4 million in fiscal 2002 which represented payments of $434,000 and a decrease in the expected future store closure obligation of $2.0 million, which was taken back into income as a change in estimate. The remaining reserve, which is $1.4 million at March 2, 2002, is reviewed periodically to determine its adequacy.

Net interest income for fiscal 2002 was $1.6 million compared to net interest income of $1.0 million for fiscal 2001. The increase was the result of increased levels of invested cash due to the Company's progress with the liquidation of aged inventory and fewer store openings in fiscal 2002.

Income tax expense was $10.4 million for fiscal 2002 compared to $2.2 million for fiscal 2001. The increase in the Company's provision for federal and state taxes in 2002 is due to the increased level of income before taxes slightly offset by a decrease in the effective tax rate to 36% for fiscal 2002 compared to 37% in fiscal 2001.

Net income increased 392.6% to $18.4 million for fiscal 2002 compared to $3.7 million for fiscal 2001. Diluted net income per share increased 400.0% to $.75 for fiscal 2002 compared to $.15 for fiscal 2001. Diluted weighted average shares outstanding were 24,683,000 and 24,663,000, for fiscal 2002 and 2001, respectively.

Fiscal 2001 Compared to Fiscal 2000. Net sales for fiscal 2001 were $663.9 million, an increase of $77.9 million or 13.3% over fiscal 2000. Of this increase, $33.9 million was attributable to an increase from the 55 existing stores open only part of fiscal 2000, and $26.7 million was from a 6.6% increase in the number of stores open during the period from 409 at the end of fiscal 2000 to 436 at the end of fiscal 2001. The balance of the increase in net sales was attributable to an approximate $14.0 million increase due to fiscal 2001 having seven additional days as compared to fiscal 2000 and a comparable store net sales increase of 1.3% in fiscal 2001. Comparable net footwear sales increased 4.9% for fiscal 2001 while comparable net activewear and accessories sales decreased 10.6%. Net sales per square foot decreased in fiscal 2001 to $256 (on a comparable 52-week year basis) from $272 in fiscal 2000. Activewear and accessories continue to be negatively effected by a significant reduction in the average unit selling price. Net sales per square foot have been negatively impacted by the decrease in activewear sales.

Gross profit, which includes product margin less store occupancy costs, for fiscal 2001 was $172.4 million. Excluding the effect of non-recurring charges of $9.2 million in fiscal 2001 representing inventory writedowns associated with the repositioning plan discussed below, gross profit was $181.6 million, an increase of approximately $19.1 million or 11.8% over fiscal 2000, and a decrease of approximately 0.4% as a percent of net sales. Of this 0.4% decrease, 0.3% was due to a decrease in margin for product sold, 0.2% was due to an increase in occupancy costs as a percentage of net sales, partially offset by a decrease in inventory shrink of 0.1%.

Selling, general and administrative expenses were $156.8 million, an increase of $17.5 million or 12.6% over fiscal 2000, and decreased to 23.6% from 23.7% as a percentage of net sales. The dollar increase was primarily attributable to the operating costs related to the 34 additional stores opened during 2001. The decrease as a percentage of net sales is a result of the 53-week year in fiscal 2001 which added approximately $14.0 million in sales to the year.

In the fourth quarter of 2001, the Company approved a repositioning plan (the "Plan") designed to increase long-term profitability of its retail stores and generate long-term value for stockholders. As part of that plan the Company recorded pre-tax non-recurring repositioning and asset impairment charges totaling $19.8 million ($12.5 million after tax or $.51 per share) in connection with additional inventory markdowns, lease costs and asset impairment charges for 17 planned store closings, and asset impairment charges for 14 identified under-performing stores.

The most significant component of the Plan included a more aggressive approach to reducing aged inventory by reconfiguring merchandise assortments to place greater emphasis on better performing fresher merchandise. The additional markdown reserve, which totaled $9.2 million, has been recorded as a component of cost of sales.

In connection with the store closings, the Company established a reserve for future lease payments after store closures of $3.8 million, all of which is included in accrued expenses at March 3, 2001. Costs were charged against this reserve as paid (expected to be primarily in 2002) and the reserve was reviewed periodically to determine its adequacy.

The Company recorded an asset impairment charge, pursuant to the requirements of SFAS No. 121, of $3.1 million related to the planned store closings. The fixed assets written off could not readily be used at other store locations nor was there a ready market outside the Company to determine fair value. The assets, consisting principally of fixtures and leasehold improvements, are expected to be discarded at the time of store closing. Accordingly, the asset impairment charge recorded represents the carrying value of the assets at the time of approval of the repositioning plan and depreciation of these assets was discontinued at that time. Operating results for the individual stores will be included in operations through the closing dates of the respective stores.

The Company also reviewed its under-performing stores for asset impairment charges. The asset impairment test was applied to all stores with negative contribution and cash flows. An asset impairment charge of $3.6 million was calculated as the difference between the carrying amount of the assets and each store's estimated future discounted cash flows.

Net interest income for fiscal 2001 was $1.0 million compared to net interest income of $.8 million for fiscal 2000. The increase was the result of increased levels of invested cash and marketable securities due to fewer store openings in fiscal 2001.

Income tax expense was $2.2 million for fiscal 2001 compared to $8.4 million for fiscal 2000. The decrease in the Company's provision for federal and state taxes in 2001 is due to the decreased level of income before taxes, slightly offset by an increase in the effective tax rate to 37% for fiscal 2001 from 35% in fiscal 2000.

Net income decreased 76.0% to $3.7 million for fiscal 2001 compared to $15.6 million for fiscal 2000. Diluted net income per share decreased 75.8% to $.15 for fiscal 2001 compared to $.62 for fiscal 2000. Diluted weighted average shares outstanding were 24,663,000 and 25,039,000, for fiscal 2001 and 2000, respectively.

Quarterly Comparisons. 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 on page 26 sets forth quarterly operating data of the Company, including such data as a percentage of net sales, for fiscal 2002 and fiscal 2001. This quarterly information is unaudited but, in management's opinion, reflects all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the information for the periods presented.

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 $39.8 million, $44.9 million and $12.1 million respectively, for fiscal 2002, 2001 and 2000. At March 2, 2002, the Company had cash and cash equivalents of $74.5 million and an additional $3.3 million in marketable securities. Cash equivalents are primarily invested in taxable instruments with maturities of one to twenty-eight days. Marketable securities represent securities that range in maturity from 90 days to three years and are primarily invested in tax exempt municipal obligations. Marketable securities are classified as available-for-sale and are available to support current operations.

Merchandise inventories were $141.9 million at March 2, 2002 compared to $145.5 million at March 3, 2001. On a per square foot basis, merchandise inventories at March 2, 2002 decreased 4.0% compared to March 3, 2001. The company believes current inventory levels are appropriate, based on the industry environment.

The Company has an unsecured committed Credit Agreement (the "Facility") with a syndicate of commercial banks in the amount of $60 million, which expires on September 20, 2003. The Company periodically reviews its ongoing credit needs with its syndicate of commercial banks and currently expects to be able to renew or renegotiate the Facility prior to its expiration for an additional period beyond the current maturity date of September 20, 2003. The interest rate on the Facility is, at the Company's election, either a negotiated rate approximating the federal funds effective rate plus 1.5% (this rate is available on the first $5 million of borrowings), the bank's LIBOR Rate plus 1.0%, or the bank's prime commercial lending rate. The margin percentage added to the LIBOR Rate is subject to adjustment quarterly based on the leverage ratio (as defined). At March 2, 2002, there were no borrowings outstanding under the Facility.

The Facility contains restrictive covenants which limit, among other things, mergers and acquisitions, redemptions of common stock, and payment of dividends. In addition, the Company must maintain a minimum leverage ratio (as defined) and minimum consolidated tangible net worth (as defined). The Company is also subject to a liquidity test and an annual capital expenditure limitation. The Company was in compliance with all such covenants at March 2, 2002.

Capital expenditures were $13.6 million and $16.4 million for fiscal 2002 and 2001, respectively. Expenditures in 2002 were primarily for the build-out of 27 stores that were opened during fiscal 2002, the remodeling of five existing stores and various corporate projects.

Expenditures in 2001 were primarily for the build-out of 34 stores that were opened in fiscal 2001, the remodeling of 13 existing stores and various corporate projects.

Additionally, $12-15 million is for an addition of 275,000 square feet to the corporate office and distribution center. The Company anticipates that total capital expenditures for fiscal 2003 will be approximately $30-35 million. Of this amount, $18-20 million is primarily for the build-out of approximately 30 new stores, the remodeling of 15-20 existing stores, and various corporate projects. Additionally, $12-15 million is for an addition of 275,000 square feet to the corporate office and distribution center. The Company estimates that its cash requirement to open a traditional format new store (averaging approximately 5,000 square feet) to be $500,000 (net of construction allowance). These requirements for a traditional store include approximately $325,000 for fixtures, equipment, and leasehold improvements and $275,000 ($175,000 net of payables) in new store inventory.

During fiscal 2001, the Company contributed 165,000 shares of Finish Line Class A Common Stock to the Company's retirement plan for its employees. The Company had purchased the shares in fiscal 1999 at an aggregate cost of $1.5 million.

Effective September 2, 1998, the Board of Directors approved a stock repurchase program. The Company was authorized to purchase on the open market or in privately negotiated transactions, through December 31, 1999, up to 2.6 million shares of the Company's Class A Common Stock outstanding. Effective December 28,1999, the Board of Directors extended the stock repurchase program through December 31, 2000 at which time it expired. Effective January 18, 2001 the Board of Directors approved a new stock repurchase program, through which the Company is authorized to purchase on the open market or in privately negotiated transactions through February 28, 2004, up to 2.5 million shares of the Company's Class A Common Stock outstanding. As of March 2, 2002, the Company holds 2,083,665 shares of its Class A Common Stock purchased on the open market at an average price of $7.96 per share for an aggregate purchase amount of $16.6 million, and has 2,097,300 shares available to repurchase under the January 2001 program. The treasury shares may be issued upon the exercise of employee stock options or for other corporate purposes.

Management believes that cash on hand, operating cash flow and borrowings under the Company's existing Facility will be sufficient to complete the Company's fiscal 2003 store expansion program and to satisfy the Company's other capital requirements through fiscal 2003.

Market Risk. The Company is exposed to changes in interest rates primarily from its investments in available-for-sale marketable securities. The Company does not use interest rate derivative instruments to manage exposure to interest rate changes. A hypothetical 100 basis point increase in interest rates would adversely effect the net fair value of marketable securities by $45,000 at March 2, 2002.

Effects of Inflation. As the costs of inventory and other expenses of the Company have increased, the Company has generally been able to increase its selling prices. In periods of high inflation, increased build-out and other costs could adversely affect the Company's expansion plans.

CONSOLIDATED BALANCE SHEETS

(in thousands)	March 2, 2002	March 3, 2001
Assets		
Current Assets		
Cash and cash equivalents	$ 74,510	$ 45,422
Marketable securities	3,343	6,513
Accounts receivable	2,221	3,476
Merchandise inventories	141,878	145,503
Other	7,673	7,233
Total current assets	229,625	208,147
Property and Equipment		
Land	315	315
Building	10,767	10,486
Leasehold improvements	97,724	91,657
Furniture, fixtures, and equipment	45,685	41,515
Construction in progress	2,801	2,849
	157,292	146,822
Less accumulated depreciation	66,554	52,348
	90,738	94,474
Other Assets		
Deferred income taxes	7,984	6,247
Total assets	$ 328,347	$ 308,868

See accompanying notes.

(in thousands)	March 2, 2002	March 3, 2001
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$ 50,908	$ 53,450
Employee compensation	7,768	6,640
Accrued property and sales tax	4,036	3,914
Deferred income taxes	2,922	906
Other liabilities and accrued expenses	10,145	9,597
Total current liabilities	75,779	74,507
Long-term deferred rent payments	8,614	7,614
Stockholders' Equity		
Preferred stock, $.01 par value;		
1,000 shares authorized; none issued	—	—
Common stock, $.01 par value		
Class A:		
Shares authorized—30,000		
Shares issued		
(2002–22,045; 2001–20,022)		
Shares outstanding		
(2002–19,961; 2001–18,181)	220	200
Class B:		
Shares authorized—12,000		
Shares issued and outstanding		
(2002–4,351; 2001–6,268)	44	63
Additional paid-in capital	123,559	122,748
Retained earnings	136,705	118,257
Accumulated other		
comprehensive income	22	12
Treasury stock		
(2002–2,084; 2001–1,841)	(16,596)	(14,533)
Total stockholders' equity	243,954	226,747
Total liabilities and stockholders' equity	$ 328,347	$ 308,868

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts) *Year Ended:*	March 2, 2002	March 3, 2001	February 26, 2000
Net sales	$ 701,426	$ 663,906	$ 585,963
Cost of sales (including occupancy expenses)	508,533	491,527	423,505
Gross profit	192,893	172,379	162,458
Selling, general and administrative expenses	167,681	156,820	139,273
Repositioning and asset impairment charges (reversals)	(2,003)	10,584	—
Operating income	27,215	4,975	23,185
Interest income–net	1,610	970	826
Income before income taxes	28,825	5,945	24,011
Income taxes	10,377	2,200	8,404
Net income	$ 18,448	$ 3,745	$ 15,607
Basic earnings per share	$ .76	$ .15	$ .63
Diluted earnings per share	$ .75	$ .15	$ .62

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOW

(in thousands) *Year Ended:*	March 2, 2002	March 3, 2001	February 26, 2000
Operating activities			
Net income	$ 18,448	$ 3,745	$ 15,607
Adjustments to reconcile net income to net cash provided by operating activities:			
Repositioning and asset impairment charges (reversals)	(2,003)	10,584	—
Depreciation	16,318	16,391	14,369
Contribution of treasury stock to retirement plan	—	1,758	682
Loss on sale of available-for-sale marketable securities	—	—	19
Deferred income taxes	279	(7,157)	5,292
Loss on disposal of property and equipment	60	247	354
Changes in operating assets and liabilities:			
Accounts receivable	1,255	6,079	(2,604)
Merchandise inventories	3,625	3,476	(13,676)
Other current assets	(440)	(5,760)	(232)
Other assets	—	209	39
Accounts payable	(2,542)	11,262	(8,484)
Employee compensation	1,128	2,003	(388)
Other liabilities and accrued expenses	2,673	779	89
Deferred rent payments	1,000	1,257	1,015
Net cash provided by operating activities	39,801	44,873	12,082
Investing activities			
Purchases of property and equipment	(13,641)	(16,413)	(26,274)
Proceeds from disposals of property and equipment	999	142	366
Proceeds from sale of available-for-sale marketable securities	3,181	4,960	4,154
Proceeds from maturity of held-to-maturity marketable securities	—	—	2,155
Net cash used in investing activities	(9,461)	(11,311)	(19,599)
Financing activities			
Proceeds from short-term debt	—	48,305	84,800
Principal payments on short-term debt	—	(48,305)	(84,800)
Proceeds and tax benefits from exercise of stock options	2,280	192	317
Purchase of treasury stock	(3,532)	(1,393)	(2,852)
Net cash used in financing activities	(1,252)	(1,201)	(2,535)
Net increase (decrease) in cash and cash equivalents	29,088	32,361	(10,052)
Cash and cash equivalents at beginning of year	45,422	13,061	23,113
Cash and cash equivalents at end of year	$ 74,510	$ 45,422	$ 13,061

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(in thousands)	Number of Shares			Amount		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Totals
	Class A	Class B	Treasury	Class A	Class B					
Balance at February 27, 1999	17,598	7,244	1,363	$ 190	$ 72	$ 121,954	$ 98,905	—	$ (12,442)	$ 208,679
Comprehensive income:										
Net income for 2000							15,607			15,607
Other comprehensive income – Net unrealized loss on available-for-sale securities, net of tax benefit of $22								(41)		(41)
Total comprehensive income										15,566
Conversion of Class B Common Stock to Class A Common Stock	976	(976)		9	(9)					—
Non-qualified Class A Common Stock options exercised	51			1		316				317
Treasury Stock purchased	(472)		472						(2,852)	(2,852)
Contribution of Treasury Stock to profit sharing plan	50		(50)			(1)			683	682
Balance at February 26, 2000	18,203	6,268	1,785	200	63	122,269	114,512	(41)	(14,611)	222,392
Comprehensive income:										
Net income for 2001							3,745			3,745
Other comprehensive income - Net unrealized gain on available-for-sale securities, net of tax expense of $30								53		53
Total comprehensive income										3,798
Non-qualified Class A Common Stock options exercised	34					192				192
Treasury Stock purchased	(221)		221						(1,393)	(1,393)
Contribution of Treasury Stock to profit sharing plan	165		(165)			287			1,471	1,758
Balance at March 3, 2001	18,181	6,268	1,841	200	63	122,748	118,257	12	(14,533)	226,747
Comprehensive income:										
Net income for 2002							18,448			18,448
Other comprehensive income - Net unrealized gain on available-for-sale securities, net of tax expense of $6								10		10
Total comprehensive income										18,458
Non-qualified Class A Common Stock options exercised	266		(160)	1		811			1,469	2,281
Treasury Stock purchased	(403)		403						(3,532)	(3,532)
Conversion of Class B Common Stock to Class A Common Stock	1,917	(1,917)		19	(19)					—
Balance at March 2, 2002	19,961	4,351	2,084	$ 220	$ 44	$ 123,559	$ 136,705	$ 22	$ (16,596)	$ 243,954

See accompanying notes.

1. Significant Accounting Policies

Basis of Presentation. The consolidated financial statements include the accounts of The Finish Line, Inc. and its wholly-owned subsidiary Spike's Holding, Inc. (collectively the "Company"). All significant intercompany transactions and balances have been eliminated. Throughout these notes to the financial statements, the fiscal years ended March 2, 2002, March 3, 2001 and February 26, 2000 are referred to as 2002, 2001 and 2000, 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 2002, 53 weeks in 2001 and 52 weeks in 2000.

Nature of Operations. Finish Line is a specialty retailer of men's, women's and children's brand-name athletic, outdoor and lifestyle footwear, activewear and accessories. The Company manages its business on the basis of one reportable segment. Finish Line stores average approximately 6,001 square feet in size and are primarily located in enclosed malls throughout most of the United States.

In 2002, the Company purchased approximately 78% of its merchandise from its five largest suppliers. The largest supplier, Nike, accounted for approximately 56%, 53% and 49% of merchandise purchases in 2002, 2001 and 2000 respectively.

Use of Estimates. 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 those estimates.

Earnings Per Share. Earnings per share are calculated based on the weighted-average number of outstanding common shares. Diluted earnings per share are calculated based on the weighted-average number of outstanding common shares, plus the effect of dilutive stock options. All per-share amounts, unless otherwise noted, are presented on a diluted basis, that is, based on the weighted-average number of outstanding common shares and the effect of all potentially dilutive common shares (primarily unexercised stock options).

Revenue Recognition. Revenues from retail sales are recognized at the time the customer receives the merchandise.

Cash and Cash Equivalents. Cash and cash equivalents include all highly liquid investments with a maturity date of three months or less when purchased.

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.

Property and Equipment. Property and equipment are stated at cost. Depreciation and amortization are generally provided using the straight-line method over the estimated useful lives of the assets, or where applicable, the terms of the respective leases, whichever is shorter.

Impairment of Long-Lived Assets. The Company accounts for long-lived assets in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-lived Assets to Be Disposed Of." The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset 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.

Store Opening and Closing Costs. Store opening costs and other non-capitalized expenditures incurred prior to opening new retail stores are expensed as incurred. In the event a store is closed before its lease has expired, the estimated post-closing lease obligation, less sublease rental income, is provided for when a decision to close the store is made.

Deferred Rent Payments. The Company is a party to various lease agreements which require scheduled rent increases over the noncancelable lease term. Rent expense for such leases is recognized on a straight-line basis over the related lease term. The difference between rent based upon scheduled monthly payments and rent expense recognized on a straight-line basis is recorded as deferred rent payments.

Advertising. The Company generally expenses the cost of advertising as incurred. Advertising expense net of co-op credits for the years ended 2002, 2001 and 2000 amounted to $11,158,000, $10,203,000 and $9,203,000 respectively.

Financial Instruments. Financial instruments consist of cash and cash equivalents, accounts receivable, marketable securities and accounts payable. The carrying value of cash and cash equivalents, accounts receivable, and accounts payable approximate fair value. The fair value of marketable securities is determined on the basis of market quotes by brokers and is disclosed in Note 2.

The Company classifies its marketable securities in one of three categories: trading, available-for-sale, or held-to-maturity. Held-to-maturity securities are those securities which the Company has the positive intent and ability to hold until maturity. Marketable securities not included in trading or held-to-maturity are classified as available-for-sale.

Management determines the appropriate classification of marketable securities at the time of purchase and reevaluates such designations as of each balance sheet date. Available-for-sale securities are carried at fair value with unrealized gains and losses recorded as a separate component of accumulated other comprehensive income. The Company has no held-to-maturity or trading securities at March 2, 2002 or March 3, 2001.

At March 2, 2002 and March 3, 2001, the Company had not invested in, nor did it have, any derivative financial instruments.

2. Marketable Securities

The following is a summary of available-for-sale marketable securities:

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 2, 2002 municipal obligations	$ 3,307	$ 43	$ (7)	$ 3,343
March 3, 2001 municipal obligations	$ 6,493	$ 46	$ (26)	$ 6,513

The amortized cost and estimated fair value of marketable securities at March 2, 2002 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

(in thousands)	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 2,807	$ 2,825
Due after one year through two years	500	518
	$ 3,307	$ 3,343

In January 2000, the Company sold $2,155,000 of investments that were previously classified as held-to-maturity. The Company's decision was based on increased borrowing costs in comparison to the rate of return on the investments. At that time, the Company also transferred all remaining investments from held-to-maturity to available-for-sale. The amortized cost transferred was $14,001,000 and the net unrealized loss on these investments at the date of transfer was $69,000.

3. Debt Agreement

The Company has an unsecured committed Credit Agreement (the "Facility") with a syndicate of commercial banks in the amount of $60,000,000, which expires on September 20, 2003. At March 2, 2002, there were no borrowings outstanding under the Facility. Letters of credit amounting to $2,571,000 relating to purchase commitments were outstanding at March 2, 2002.

The Facility contains restrictive covenants which limit, among other things, mergers, acquisitions, redemptions of common stock, and payment of dividends. In addition, the Company must maintain a minimum leverage ratio (as defined) and minimum consolidated tangible net worth (as defined). The Company is also subject to a liquidity test and an annual capital expenditure limitation. The Company was in compliance with all restrictive covenants of the debt agreement in effect at March 2, 2002.

The interest rate on the Facility is, at the Company's election, either a negotiated rate approximating the federal funds effective rate plus 1.5% (this rate is available on the first $5,000,000 of borrowings), the bank's LIBOR Rate plus 1.0% or the bank's prime commercial lending rate. The margin percentage added to the LIBOR Rate is subject to adjustment quarterly based on the leverage ratio (as defined). Interest expense, which approximated interest paid, for 2002, 2001 and 2000 was $0, $26,000 and $185,000 respectively. The Company pays a commitment fee on the unused portion of the Facility at an effective annual rate of .25%.

4. Leases

The Company leases retail stores under noncancelable 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 of the leases contain contingent rental provisions computed on the basis of store sales. 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 incurred under these leases are as follows:

(in thousands)	2002	2001	2000
Base Rent	$ 53,819	$ 50,341	$ 44,211
Deferred Rent	1,000	1,257	1,014
Contingent Rent	2,088	2,299	1,628
Rent Expense	$ 56,907	$ 53,897	$ 46,853

A schedule of future base rent payments by fiscal year for signed operating leases at March 2, 2002 with initial or remaining non-cancelable terms of one year or more is as follows:

(in thousands)	
2003	$ 55,728
2004	54,202
2005	50,922
2006	47,943
2007	44,982
Thereafter	119,629
	$ 373,406

This schedule of future base rent payments includes lease commitments for four new stores and four remodels which were not open as of March 2, 2002.

5. Income Taxes

The components of income taxes are as follows:

(in thousands)	2002	2001	2000
Currently payable:			
Federal	$ 9,553	$ 8,342	$ 2,756
State	562	1,015	356
	10,115	9,357	3,112
Deferred:			
Federal	247	(6,411)	4,687
State	15	(777)	605
	262	(7,157)	5,292
	$ 10,377	$ 2,200	$ 8,404

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)	March 2, 2002	March 3, 2001
Deferred tax assets:		
Rent accrual	$ 3,794	$ 4,225
Property and equipment	4,651	3,372
Uniform capitalization	1,268	1,132
Vacation accrual	716	579
Other	142	231
Total deferred tax assets	10,571	9,539
Deferred tax liability – Inventory	(5,509)	(4,198)
Net deferred tax asset	$ 5,062	$ 5,341

The effective income tax rate varies from the statutory federal income tax rate for 2002, 2001 and 2000 due to the following:

	2002	2001	2000
Tax at statutory federal income tax rate	35.0 %	35.0%	35.0 %
State income taxes, net of federal benefit	2.6 %	2.6%	2.6 %
Tax exempt interest	(0.4)%	(5.9)%	(4.3)%
Other	(1.2)%	5.3%	1.7 %
	36.0 %	37.0%	35.0 %

Payments of income taxes for 2002, 2001 and 2000 were $8,257,000, $5,678,000 and $4,751,000 respectively.

6. 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. During 2001 the Company amended and restated the plan to add a 401(k) feature whereby the Company matches 100 percent of employee contributions to the plan up to three percent of an employee's wages. The Company's total expense for the plan in 2002, 2001 and 2000 amounted to $1,603,000, $1,036,000 and $1,626,000 respectively.

7. Stock Options

The Board of Directors has reserved 3,500,000 shares of Class A Common Stock for issuance upon exercise of options or other awards under the option plan. 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 Company has elected to follow Accounting Principles Board Opinion (APB) No 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its stock options. Under APB No. 25, if the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

During February 2002, the Company awarded 105,000 options at a price equal to $1.00 which cliff vest after four years and expire ten years after the date of grant. Total compensation expense recognized for these option awards was $33,000 for 2002 and will approximate $402,000 in 2003.

SFAS No. 123, "Accounting for Stock-Based Compensation," requires presentation of pro forma information as if the Company had accounted for its employee stock options granted subsequent to December 31, 1994, under the fair value method. For purposes of pro forma disclosure, the estimated fair value of the options is amortized to expense over the vesting period.

Under the fair value method, the Company's net income and earnings per share would have been as follows:

(in thousands)	2002	2001	2000
Net income			
As reported	$ 18,448	$ 3,745	$ 15,607
Pro forma	17,177	2,190	14,154
Diluted earnings per share			
As reported	$ .75	$ .15	$ .62
Pro forma	.71	.09	.58

The estimated weighted-average fair value of the individual options granted during 2002, 2001 and 2000 was $9.46, $6.35 and $4.20 respectively, on the date of grant. The fair values for all years were determined using a Black-Scholes option-pricing model with the following assumptions:

	2002	2001	2000
Dividend yield	0 %	0 %	0 %
Volatility	75.7 %	78.0 %	77.9 %
Risk-free interest rate	5.14 %	6.20 %	6.58 %
Expected life	7 years	7 years	7 years

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

	Number of Options	Weighted-Average Exercise Price
February 27, 1999	1,587,316	$ 10.81
Granted	439,300	5.52
Exercised	(50,751)	3.92
Canceled	(166,825)	12.73
February 26, 2000	1,809,040	$ 9.55
Granted	12,000	8.38
Exercised	(34,200)	4.24
Canceled	(76,105)	10.64
March 3, 2001	1,710,735	$ 9.59
Granted	1,020,450	10.76
Exercised	(265,765)	5.40
Canceled	(191,810)	11.74
March 2, 2002	2,273,610	$ 10.43

The following table summarizes information concerning outstanding and exercisable options at March 2, 2002:

Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$1–$5	317,625	5.5	3.03	212,625	4.03
$5–$10	1,053,510	8.0	7.46	271,900	7.78
$10–$15	292,975	6.1	13.51	273,975	13.65
$15–$25	609,500	8.4	17.94	181,150	21.57

Options exercisable were 946,650; 950,375 and 721,192 at fiscal year end 2002, 2001 and 2000, respectively.

8. Earnings Per Share

The following is a reconciliation of the numerators and denominators used in computing earnings per share:

(in thousands, except per share amounts)	2002	2001	2000
Income available to common stockholders	$ 18,448	$ 3,745	$ 15,607
Basic earnings per share:			
Weighted-average number of common shares outstanding	24,312	24,458	24,848
Basic earnings per share	$ .76	$ .15	$ .63
Diluted earnings per share:			
Weighted-average number of common shares outstanding	24,312	24,458	24,848
Stock options	371	205	191
Diluted weighted-average number of common shares outstanding	24,683	24,663	25,039
Diluted earnings per share	$ .75	$ .15	$ .62

9. Common Stock

At March 2, 2002, 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 stockholders (including the election of directors), except that, in the case of a proposed amendment to the Company's Restated Certificate 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 Stockholders.

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 stockholders and their family members.

The Company's Board of Directors approved a stock repurchase program in which the Company was authorized to purchase on the open market or in privately negotiated transactions, through December 31, 2000, up to 2,600,000 shares of Class A Common Stock outstanding. Effective January 18, 2001, the Board of Directors approved a new stock repurchase program. The Company is authorized to purchase on the open market or in privately negotiated transactions through February 28, 2004, up to 2,500,000 shares of the Company's Class A Common Stock outstanding. As of March 2, 2002, the Company holds as treasury shares 2,083,665 shares of its Class A Common Stock at an average price of $7.96 per share for an aggregate purchase amount of $16,596,000, and has 2,097,300 shares available to repurchase under the January, 2001 plan. The treasury shares may be issued upon the exercise of employee stock options or for other corporate purposes.

10. Repositioning and Asset Impairment Charges

In the fourth quarter of 2001, the Company approved a repositioning plan (the "Plan"). As part of that Plan, the Company recorded pre-tax non-recurring repositioning and asset impairment charges totaling $19,809,000 in connection with additional inventory markdowns, lease costs and asset impairment charges for 17 planned store closings, and asset impairment charges for 14 identified under-performing stores.

The most significant component of the Plan included a more aggressive approach to reducing aged inventory by reconfiguring merchandise assortments to place greater emphasis on better performing fresher merchandise. The additional markdown reserve, which totaled $9,225,000, was recorded as a component of cost of sales in 2001. During 2002 the Company completed its repositioning plan related to aged inventory and recognized an additional $288,000 of expense related to inventory markdowns which was recorded as a component of cost of sales in 2001. The repositioning markdown reserve balance is zero as of March 2, 2002.

In connection with the store closings, the Company established in 2001 a reserve for future lease payments after store closures of $3,806,000, all of which was included in accrued expenses at March 3, 2001. During 2002, the accrued expense was reduced $2,437,000 which represented payments of $434,000 and a decrease in the expected future lease store closure obligation of $2,003,000. The reserve balance at March 2, 2002 is $1,369,000. Costs will be charged against this reserve as incurred and the reserve will be reviewed periodically to determine its adequacy.

The Company recorded an asset impairment charge in 2001 pursuant to the requirements of SFAS No. 121, of $3,140,000 related to the planned store closings. The fixed assets written off could not readily be used at other store locations nor was there a ready market outside the Company to determine fair value. The assets, consisting principally of fixtures and leasehold improvements, were discarded at the time of store closing. Accordingly, the asset impairment charge recorded represented the carrying value of the assets at the time of approval of the repositioning plan and depreciation of these assets was discontinued at that time. Operating results for the individual stores are included in operations through the closing dates of the respective stores.

In 2001 the Company also reviewed its under-performing stores for asset impairment charges. The asset impairment test was applied to all stores with negative contribution and cash flows. An asset impairment charge in 2001 of $3,638,000 was calculated as the difference between the carrying amount of the assets and each store's estimated future discounted cash flows.

REPORT OF INDEPENDENT AUDITORS

THE BOARD OF DIRECTORS AND STOCKHOLDERS OF THE FINISH LINE, INC.

We have audited the accompanying consolidated balance sheets of The Finish Line, Inc. as of March 2, 2002 and March 3, 2001, and the related consolidated statements of income, cash flows, and changes in stockholders' equity for each of the three years in the period ended March 2, 2002. 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 auditing standards generally accepted in the 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 March 2, 2002 and March 3, 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 2, 2002, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Fort Wayne, Indiana
March 21, 2002

MARKET PRICE OF COMMON STOCK

Quarter Ended	Fiscal 2002		Fiscal 2001	
	High	Low	High	Low
May	$ 10.61	$ 5.88	$ 11.63	$ 5.50
August	12.71	8.92	9.13	5.63
November	13.10	8.55	9.00	6.50
February	17.55	12.45	8.88	4.75

The Class A Common Stock has traded on the Nasdaq National Market under the symbol FINL since the Company became a public entity in June 1992. Since its initial public offering in June 1992, the Company has not declared any cash dividends and does not anticipate paying any cash dividends in the foreseeable future. See Management's Discussion and Analysis and Note 3 of Notes to Consolidated Financial Statements for restrictions on the Company's ability to pay dividends.

SENIOR OFFICERS AND DIRECTORS

Name	*Age*	*Position*	*Officer or Director Since*
Alan H. Cohen	55	Chairman of the Board of Directors President and Chief Executive Officer	1976
David I. Klapper [3]	53	Senior Executive Vice President, Director	1976
Larry J. Sablosky	53	Senior Executive Vice President, Director	1982
Steven J. Schneider	46	Executive Vice President — COO, CFO and Asst. Secretary	1989
Glenn S. Lyon	51	Executive Vice President — Chief Merchandising Officer	2001
Gary D. Cohen	49	Executive Vice President — General Counsel and Secretary	1997
Donald E. Courtney	47	Executive Vice President — CIO and Distribution	1989
George S. Sanders	44	Executive Vice President — Real Estate and Store Development	1994
Michael L. Marchetti	51	Executive Vice President — Store Operations	1995
Kevin S. Wampler	39	Senior Vice President — Chief Accounting Officer and Asst. Secretary	1997
Robert A. Edwards	39	Senior Vice President — Distribution	1997
Kevin G. Flynn	38	Senior Vice President — Marketing	1997
James B. Davis	39	Senior Vice President — Real Estate	1997
Joseph L. Gravitt	42	Senior Vice President — Store Personnel	1998
Roger C. Underwood	32	Senior Vice President — Information Systems	2000
Jonathan K. Layne [2][3][4]	48	Director	1992
Jeffrey H. Smulyan [1][2][5]	54	Director	1992
Stephen Goldsmith [1][6]	55	Director	1999
Bill Kirkendall [1][7]	48	Director	2001

(1) Member of the Audit Committee
(2) Member of the Compensation and Stock Option Committee
(3) Member of the Finance Committee
(4) Mr. Layne is a partner in the law firm of Gibson, Dunn & Crutcher LLP
(5) Mr. Smulyan is Chairman of the Board and President of Emmis Communications Corporation
(6) Mr. Goldsmith is a partner in the law firm of Baker & Daniels LLP
(7) Mr. Kirkendall is Chief Executive Officer and President of Orlimar Golf Company

Transfer Agent and Registrar:
American Stock Transfer & Trust Co.
Shareholder Services
40 Wall Street
New York, NY 10005

Stock Market Information:
The Company's Class A Common Stock is traded on the NASDAQ National Market under the symbol FINL. As of April 12, 2002, the approximate number of holders of record of Class A Common Stock was 291. The Company believes that the number of beneficial holders of its Class A Common Stock was in excess of 500 as of that date. On April 12, 2002, the closing price for the Company's Class A Common Stock, as reported by NASDAQ was $18.74.

Financial Reports:
A copy of Form 10-K, the Company's annual report to the Securities and Exchange Commission, for the current period can be obtained without charge by writing to:

The Finish Line, Inc.
Attn: Chief Financial Officer
3308 N. Mitthoeffer Road
Indianapolis, IN 46235
Internet Address: www.finishline.com

Certain statements contained in this Annual Report regard matters that are not historical facts and are forward looking statements (as such term is defined in the rules promulgated pursuant to the Securities Act of 1933, as amended). Because such forward looking statements contain risks and uncertainties, actual results may 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: changing consumer preferences; the Company's inability to successfully market its footwear, apparel, accessories and other merchandise; price, product and other competition from other retailers (including internet and direct manufacturer sales); the unavailability of products; the inability to locate and obtain favorable lease terms for the Company's stores; the loss of key employees, general economic conditions and adverse factors impacting the retail athletic industry; management of growth, and the other risks detailed in the Company's Securities and Exchange Commission filings. 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.

Finish Line
3308 North Mitthoeffer Road
Indianapolis, Indiana 46235

WWW.FINISHLINE.COM