

HIBBETT SPORTS INC  
Form 10-K  
April 18, 2019

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

FORM 10-K

(Mark One)

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

For the fiscal year ended: February 2, 2019

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: 000-20969

HIBBETT SPORTS, INC.  
(Exact name of registrant as specified in its charter)

DELAWARE 20-8159608  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

2700 Milan Court, Birmingham, Alabama 35211  
(Address of principal executive offices, including zip code)

205-942-4292  
(Registrant's telephone number, including area code)

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

<u>Common Stock, \$0.01 Par Value Per Share</u>	<u>NASDAQ Global Select Market</u>
Title of Class	Name of each exchange on which registered

Securities registered pursuant to section 12(g) of the Act: NONE

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

Yes No

Indicate  
by check

mark if  
the  
registrant  
is not  
required  
to file  
reports  
pursuant  
to Section  
13 or  
Section  
15(d) of  
the Act.

Yes No

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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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

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

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

Large accelerated filer          Accelerated filer

Non-accelerated filer          Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

The aggregate market value of the voting stock held by non-affiliates of the Registrant (assuming for purposes of this calculation that all executive officers and directors are "affiliates") was \$444,759,513 on August 4, 2018, based on the closing sale price of \$24.15 at August 3, 2018 for the common stock on such date on the NASDAQ Global Select Market.

The number of shares outstanding of the Registrant's common stock, as of April 2, 2019, was 18,384,835.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the 2019 Annual Meeting of Stockholders to be held on May 23, 2019, are incorporated by reference into Part III of this Annual Report on Form 10-K. Registrant's definitive Proxy Statement will be filed with the Securities and Exchange Commission on or before April 23, 2019.

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## Introductory Note

References to “we”, “our”, “us”, “Hibbett” and the “Company” used throughout this document refer to Hibbett Sports, Inc. and its subsidiaries. Unless specifically indicated otherwise, any reference to the following years or fiscal years relates to:

Year	Related Fiscal Year End	Weeks in Fiscal Period
2020 or Fiscal 2020	February 1, 2020	52
2019 or Fiscal 2019	February 2, 2019	52
2018 or Fiscal 2018	February 3, 2018	53
2017 or Fiscal 2017	January 28, 2017	52

## PART 1

## Item 1. Business.

## Cautionary Statement Regarding Forward-Looking Statements

This document contains “forward-looking statements” as that term is used in the Private Securities Litigation Reform Act of 1995. Forward-looking statements address future events, developments and results and do not relate strictly to historical facts. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. They include statements preceded by, followed by or including words such as “believe,” “anticipate,” “could,” “expect,” “intend,” “may,” “outlook,” “forecast,” “guidance,” “continue,” “plan,” “predict,” “should,” “v

“estimate” or other similar words, phrases or expressions, whether in the negative or affirmative. For example, our forward-looking statements include statements regarding:

- our plans, expectations and estimates concerning the integration of City Gear, LLC (City Gear) and related costs;
- our ability to retain key personnel at Hibbett and City Gear;
- our anticipated net sales, comparable store net sales changes, net sales growth, gross margins, expenses and earnings;
- our business strategy, omni-channel platform, logistics structure, target market presence and the expected impact of such factors on our net sales growth;
- our store growth, including our plans to add, expand, relocate or close stores, our markets’ ability to support such growth, expected changes in total square footage, our ability to secure suitable locations for new stores and the suitability of our wholesale and logistics facility;
- our expectations regarding the growth of our online business and the role of technology in supporting such growth;
- our policy of leasing rather than owning stores and our ability to renew or replace store leases satisfactorily;
- the cost of regulatory compliance, including the costs and possible outcomes of pending legal actions and other contingencies;
- our cash needs, including our ability to fund our future capital expenditures, working capital requirements and repurchases of Company common stock under our repurchase program;
- our analysis of our risk factors and their possible effect on financial results;
- our ability and plans to renew our credit facilities;
- our expectations regarding our capital expenditures and dividend policy;
- our seasonal sales patterns and assumptions concerning customer buying behavior;
- our expectations regarding competition;
- our estimates and assumptions as they relate to the fair value of assets acquired and liabilities assumed in the purchase of City Gear, preferable tax and financial accounting methods, accruals, inventory valuations, long-lived assets, store closure charges, carrying amount and liquidity of financial instruments, fair value of options and other stock-based compensation, economic and useful lives of depreciable assets and leases, income tax liabilities, deferred taxes and uncertain tax positions;

·our expectations concerning future stock-based award types and the exercise of outstanding stock options;

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- the possible effect of inflation, market decline and other economic changes on our costs and profitability;
- our assessment of the materiality and impact on our business of recent accounting pronouncements adopted by the Financial Accounting Standards Board;
- the possible effects of uncertainty within the capital markets, on the commercial credit environment and on levels of consumer confidence;
- our analyses of trends as related to marketing, sales and earnings performance;
- our ability to receive favorable brand name merchandise and pricing from key vendors;
- the future reliability of, and cost associated with, our sources of supply, particularly imported goods;
- our relationships with vendors and the loss of key vendor support;
- our plans, expectations and abilities relating to cybersecurity; and
- our ability to mitigate the risk of possible business interruptions.

A forward-looking statement is neither a prediction nor a guarantee of future results, events or circumstances. You should not place undue reliance on forward-looking statements. Our forward-looking statements are all based on currently available operating, financial and business information and speak only as of the date of this Annual Report on Form 10-K. Our business, financial condition, results of operations and prospects may have changed since that date. For a discussion of the risks, uncertainties and assumptions that could affect our future events, developments or results, you should carefully review the “Risk Factors” as well as “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this report.

We cannot assure you that the results, events and circumstances reflected in the forward-looking statements will be achieved or occur, and actual results, events or circumstances could differ materially from those described in the forward-looking statements. Moreover, new risks and uncertainties emerge from time to time and it is not possible for us to predict all risks and uncertainties that could have an impact on our forward-looking statements.

We do not undertake to publicly update or revise any forward-looking statements after the date of this Form 10-K, whether as a result of new information, future events, or otherwise, and you should not expect us to do so.

Investors should also be aware that while we do, from time to time, communicate with securities analysts and others, we do not, by policy, selectively disclose to them any material non-public information in connection with any statement or report issued by any analyst regardless of the content of the statement or report. We do not, by policy, confirm forecasts or projections issued by others. Thus, to the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not our responsibility.

Our Company

Our Company began in 1945 under the name Dixie Supply Company in Florence, Alabama. Although we initially specialized primarily in the marine and small aircraft business, by 1960, we were solely in the sporting goods business. In 1965, we opened our second store, Dyess & Hibbett Sporting Goods, in Huntsville, Alabama, and hired Mickey Newsome, who is now Chairman of our Board. The following year, we opened another sporting goods store in Birmingham and by the end of 1980, we had 12 stores in central and northwest Alabama with a distribution center located in Birmingham and our central accounting office in Florence. We became a public company in October 1996.

In November 2018, we acquired City Gear, LLC (City Gear), a privately held city specialty retailer with over 130 stores. The City Gear acquisition provides us with substantially greater scale in the athletic specialty market and is an extension of our strategy to provide high demand, branded products to underserved markets. Today, we are a leading athletic-inspired omni-channel retailer operating stores primarily located in small and mid-sized communities, and e-commerce websites under [hibbett.com](http://hibbett.com) and [citygear.com](http://citygear.com). As of February 2, 2019, we operated a total of 1,163 stores consisting of 1,025 Hibbett stores and 138 City Gear stores in 35 states. Overall, our stores are approximately 5,500 square feet and are located primarily in strip centers frequently influenced by a major chain retailer.





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Our primary merchandising strategy is to provide a broad assortment of quality brand name footwear, apparel, accessories and athletic equipment at competitive prices in a conveniently located full-service environment. At the end of the second quarter of Fiscal 2018, we successfully launched our e-commerce website. We will continue to grow our online business aggressively, while continuing to enhance our stores to improve the overall customer experience. We believe that the breadth and depth of our brand name merchandise consistently exceeds the product selection carried by most of our competitors, particularly in our smaller markets. Many of these brand name products are highly technical and require expert sales assistance. We continuously educate our sales staff on new products and trends through coordinated efforts with our vendors.

## Our Executive Officers

Our current executive officers and their prior business experience are as follows:

Jeffrey O. Rosenthal, age 61, has been our Chief Executive Officer and President since March 2010. He also currently serves on our Board of Directors. Formerly, he served as President and Chief Operating Officer from February 2009 through March 2010 and as Vice President of Merchandising from August 1998 through February 2009. Prior to joining us, Mr. Rosenthal was Vice President and Divisional Merchandise Manager for Apparel with Champs Sports, a division of Foot Locker, Inc., from 1981 to 1998.

Scott J. Bowman, age 52, was hired as our Senior Vice President and Chief Financial Officer in July 2012. Prior to joining us, Mr. Bowman was Division Chief Financial Officer – Northern Division of The Home Depot, a large home improvement retailer. Previously, Mr. Bowman served The Home Depot as their Senior Director, Finance – IT for approximately three years. In prior retail experience, he has worked in various controller and accounting management positions.

Jared S. Briskin, age 46, was appointed our Senior Vice President and Chief Merchant in September 2014. Formerly, he served as Vice President/Divisional Merchandise Manager of Footwear and Equipment from March 2010 through September 2014 and Vice President/Divisional Merchandise Manager of Apparel and Equipment from June 2004 through March 2010. Prior to his appointment to Vice President in 2004, Mr. Briskin held various merchandising positions across multiple categories since joining the Company in April 1998.

Cathy E. Pryor, age 55, has been our Senior Vice President of Operations since 2012. Formerly, she served as Vice President of Operations from 1995 to 2012. She joined our Company in 1988 serving in areas of increasing responsibility including district manager and Director of Store Operations.

## Our Employees

As of February 2, 2019, we employed approximately 10,600 employees, of which approximately 3,600 are full time employees. None of our employees are represented by a labor union. The number of part time employees fluctuates depending on seasonal needs. We consider our relationship with our employees to be good and have not experienced significant interruptions of operations due to labor disagreements. We have implemented programs in our stores and corporate offices to ensure that we hire and promote the most qualified employees in a non-discriminatory way.

**Employee Development:** We develop our training programs in a continuing effort to service the needs of our customers and employees. These programs include online and DVD training in all stores for the latest in technical detail of new products and new operational and customer service techniques. We also have an intensive, five-day session designed specifically for new store managers. Periodically, we conduct shorter onsite training sessions for all or a specific group of employees as needed. Because we primarily promote or relocate current employees to serve as managers for new stores, training and assessment of our employees is essential to our sustained growth.



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### Our Business Strategy

We target small to mid-sized markets with branded products and provide a high level of customer service. This market strategy enables us to achieve significant cost benefits including lower corporate expenses, reduced logistics costs and increased economies of scale from marketing activities. We use information systems to maintain tight controls over inventory and operating costs and continually search for ways to improve efficiencies and the customer experience through information system upgrades. In addition, we establish greater customer, vendor and landlord recognition as a leading athletic specialty retailer in these communities. We believe our ability to align our merchandising mix to local preferences and trends differentiates us from our national competitors.

We strive to hire enthusiastic sales people with an interest in sports and athletics-inspired fashion. Our extensive training program focuses on product knowledge and selling skills and is conducted through the use of in-store clinics, interactive group discussions and store associate training, self-study courses and Hibbett University designed specifically for store management.

### Our Store Banners

**Hibbett Sports:** As of February 2, 2019, we operated 1,007 Hibbett Sports stores. These stores average approximately 5,700 square feet and are located primarily in strip centers, usually near a major chain retailer such as a Wal-Mart store. We operated 809 Hibbett Sports stores in strip centers, which includes free-standing stores, and 198 stores in enclosed malls, the majority of which are the only enclosed malls in their county.

**City Gear:** In November 2018, we acquired 136 City Gear stores and as of February 2, 2019, operated 138 City Gear stores which average 5,000 square feet and are located primarily in strip centers. We operated 97 City Gear stores in strip centers, which includes free-standing stores, and 41 stores in enclosed malls.

**Sports Additions:** We operate 18 Sports Additions (SA) stores, which average 2,500 square feet and are located primarily in enclosed malls. Approximately 90% of the merchandise carried in our SA stores is athletic footwear with the remainder consisting of headwear and apparel.

**Team:** In December 2017, we sold a portion of the assets and ceased the operations of Hibbett Team Sales, Inc. (Team), a wholly owned subsidiary of the Company. Team was a supplier of customized athletic apparel, equipment and footwear primarily to school athletic programs in Alabama and parts of Georgia, Florida and Mississippi. Team sold its merchandise directly to educational institutions and youth associations. The operations of Team were independent of the operations of our retail stores.

In selecting retail locations, we consider the size, demographics, quality of real estate and competitive conditions in each market. Our stores offer a core merchandising mix of localized footwear, apparel, accessories and equipment designed to appeal to a wide range of customers within each market. We strive to meet the technical and fashion demands of our consumer as well as respond quickly to major sporting events in college or professional team sports of local interest within our markets.

None of our store concepts meets the quantitative or qualitative requirements of Accounting Standards Codification (ASC) Topic 280, Segment Reporting.

### Our Growth Strategy

We identify markets for our stores under a clustered expansion program. This approach primarily focuses on opening new stores within a two hour driving distance of existing locations, allowing us to take advantage of efficiencies in logistics, marketing and regional management. It also aids us in building a better understanding of appropriate

merchandise selection for the local market. In addition to proximity to existing stores, we also consider population, economic conditions, local competitive dynamics, availability of suitable real estate and potential for return on investment when evaluating potential markets.

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Omni-channel strategy: We recognize that our customer is evolving and looking to engage with us in multiple ways. As a result, we continue to make investments that will enable us to engage our customer specifically in the digital commerce channel. In addition to having store-to-store and store-to-home capability allowing us to use our chain-wide inventory to satisfy a customer sale, we have an e-commerce website allowing customers to shop across both channels. In Fiscal 2019, we completed development of our mobile app and rolled out Buy Online, Pickup in Store (BOPIS) and Reserve Online, Pickup in Store (ROPIS). These developments complement our website and provide our customers with even more advanced features such as shopping, loyalty and raffle capabilities.

## Our Logistics

We maintain a full-line wholesale and logistics facility in Alabaster, Alabama (a suburb of Birmingham) where we receive and ship most our merchandise. In addition, we utilize a third-party logistics facility in Memphis, Tennessee and a third-party consolidation center in southern California to improve efficiencies and to improve time to market. For key products, we maintain backstock at the Alabaster facility. This product is allocated and shipped to stores through an automatic replenishment system based on inventory levels and sales. Merchandise is delivered to stores via Company operated vehicles, small package carriers or third-party logistics providers. We believe strong logistics support for our stores is a critical element of our business strategy and that our current logistics structure will support our growth over the next several years. See “Risk Factors.”

## Our Merchandise

Our merchandising strategy is to provide a broad assortment of premium brand name footwear, apparel, accessories and athletic equipment at competitive prices in a full service environment.

We believe that the assortment of brand name merchandise we offer consistently exceeds the merchandise selection carried by most of our brick and mortar competitors, particularly in our smaller markets. Many of these brand name products have limited availability and/or are technical in nature requiring considerable sales assistance. We coordinate with our vendors to educate the sales staff at the store level on new products and trends.

Although the core merchandise assortment tends to be similar for each store, important demographic, local and/or regional differences exist. Accordingly, our stores offer products that reflect preferences for particular demographics as well as interests from each community. Our knowledge of these interests, combined with access to leading vendors, enables our merchandising staff to react quickly to emerging trends or special events, such as fashion shifts or athletic events.

Our merchandising staff, operations staff and management analyze current trends primarily through the lens of our store typing strategy. Information is largely gathered and analyzed utilizing business intelligence tools. Other strategic measures we utilize to recognize trends or changes in our industry include:

- maintaining close relationships with vendors and other retailers;
- studying other retailers for best practices in merchandising;
- attending various trade shows, both in our industry and outside as well as reviewing industry trade publications;
- actively participating in industry associations such as the National Sporting Goods Association (NSGA);
- visiting competitor store locations;
- monitoring industry data sources and periodicals;
- monitoring product selection at competing stores and online; and
- communicating with our regional vice presidents, district managers and store managers.

The merchandising staff works closely with store personnel to meet the requirements of individual stores for appropriate merchandise in sufficient quantities. See “Risk Factors.”



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### Our Vendor Relationships

The athletic specialty retail business is brand name driven. Accordingly, we maintain positive relationships with a number of well-known vendors to satisfy customer demand. We believe that our stores are among the primary brick and mortar retail distribution avenues for brand name vendors that seek to penetrate our target markets. As a result, we are able to attract considerable vendor interest and establish long term partnerships with vendors. As our vendors expand their product lines and grow in popularity, we expand sales of these products within our stores. In addition, as we continue to increase our store base and enter new markets, our vendors increase their brand presence within these regions. We also work with our vendors to establish favorable pricing and to receive cooperative marketing funds. See “Risk Factors.”

### Our Information Systems

We use technology as an enabler of our business strategies. We have implemented and maintained systems targeted at improving financial control, cost management, inventory control, merchandise planning, logistics, replenishment, and product allocation. Based on our evaluation of City Gear to-date, we believe that it followed a similar approach to maintaining package and partner-based systems.

Our systems are designed to be flexible to meet the unique needs of each specific store location. In Fiscal 2018, we added our digital channel and in Fiscal 2019, we accomplished further channel integration and a more seamless and frictionless set of capabilities aimed at enhancing our customers shopping experience in store, online and through our mobile solutions. In Fiscal 2020, we expect to extend shipping options that our customers have expressed great interest in and also decrease costs for shipping services. Additionally, we plan to co-brand our web presence by including City Gear into our omni-channel experience.

Our communications networks send and receive critical business data to and from stores, third-party cloud providers, and managed hosting facilities (data centers). Our company’s information is processed in a secure environment to protect both the actual data and the physical assets. We attempt to mitigate the risk of cyber-security threats and business interruptions by maintaining strong security protocols, threat monitoring, regular risk reviews, and a detailed disaster recovery plan. While many of these same controls are utilized by City Gear, we plan to update the City Gear systems where warranted to the above stated aspects of security to be more closely aligned across all our operations.

We strive to maintain highly qualified and motivated third-party partners and teams of individuals to support our information systems, which includes security, help desk, engineering, operations, quality assurance, business analysis, solution development and project managers. Our systems are monitored 24 hours a day and management believes that our current systems and practice of implementing regular updates will continue to support current needs and future growth. We use a strategic information systems planning process that involves senior management and is integrated into our overall business planning and enterprise risk management. Information systems projects are prioritized based upon strategic, financial, regulatory and other business criteria.

### Our Marketing and Promotion

We focus on marketing opportunities that drive traffic and sales to our stores and website. In Fiscal 2019, digital marketing was the major growth area of our marketing budget, while direct mail continued to be an important part of our marketing mix. Because these investments in digital marketing are yielding strong response, we expect to continue to grow digital marketing in Fiscal 2020. We utilize our internal marketing team, as well as external digital marketing agencies, to ensure execution and returns from these new programs.

We offer two customer loyalty programs, the Hibbett Rewards program and City Gear Reward Points, whereby customers can earn awards that can be redeemed in our stores. Our Rewards programs represent a significant portion

of overall sales. In Fiscal 2018, we launched an improved Hibbett program that provided more value to our customers and made it easier to use. Since then, we have significantly increased our member base as well as their frequency of purchases. We continue to explore opportunities to further improve our Rewards programs to drive member acquisition and sales.

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Our Competition

The business in which we are engaged is highly competitive. The marketplace for athletic specialty merchandise is highly fragmented as many different brick and mortar and online retailers compete for market share by utilizing a variety of formats and merchandising strategies. We compete with department and discount stores, traditional shoe stores, specialty sporting goods shops, local sporting goods stores, outlet centers, mass merchandisers, e-commerce retailers and, in some of our large and mid-size markets, national sporting goods superstores. In addition, we face competition from vendors that sell directly to consumers.

Although we face competition from a variety of competitors, we believe that our stores are able to compete effectively by providing a premium assortment of footwear, apparel, accessories and team sports equipment. Additionally, we differentiate our store experience through extensive product knowledge, customer service and convenient locations. We believe we compete favorably with respect to these factors in the smaller markets predominantly in the South, Southwest, Mid-Atlantic and Midwest regions of the United States. See “Risk Factors.”

Our Trademarks

Our Company, by and through subsidiaries, is the owner or licensee of trademarks that are very important to our business. For the most part, trademarks are valid as long as they are in use and/or their registrations are properly maintained. Registrations of trademarks can generally be renewed indefinitely as long as the trademarks are in use.

Following is a list of active trademarks registered and owned by the Company:

- Hibbett Sports, Registration No. 2717584
- Sports Additions, Registration No. 1767761
- Hibbett, Registration No. 3275037
- City G.E.A.R, Registration No. 4398655
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