

BIG 5 SPORTING GOODS CORP

Form 10-Q

November 03, 2010

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended October 3, 2010**

**OR**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Commission file number: 000-49850**

**BIG 5 SPORTING GOODS CORPORATION**

(Exact name of registrant as specified in its charter)

Delaware

95-4388794

(State or Other Jurisdiction of Incorporation or Organization)

(I.R.S. Employer Identification No.)

2525 East El Segundo Boulevard  
El Segundo, California

90245

(Address of Principal Executive Offices)

(Zip Code)

Registrant's telephone number, including area code: (310) 536-0611

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

There were 21,819,662 shares of common stock, with a par value of \$0.01 per share outstanding as of October 29, 2010.

**BIG 5 SPORTING GOODS CORPORATION**  
**INDEX**

		Page
<b><u>PART I FINANCIAL INFORMATION</u></b>		
<u>Item 1</u>	<u>Financial Statements</u>	
	<u>Unaudited Condensed Consolidated Balance Sheets at October 3, 2010 and January 3, 2010</u>	3
	<u>Unaudited Condensed Consolidated Statements of Operations for the Thirteen and Thirty-Nine Weeks Ended October 3, 2010 and September 27, 2009</u>	4
	<u>Unaudited Condensed Consolidated Statements of Cash Flows for the Thirty-Nine Weeks Ended October 3, 2010 and September 27, 2009</u>	5
	<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	6
	<u>Report of Independent Registered Public Accounting Firm</u>	17
<u>Item 2</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
<u>Item 3</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	32
<u>Item 4</u>	<u>Controls and Procedures</u>	32
<b><u>PART II OTHER INFORMATION</u></b>		
<u>Item 1</u>	<u>Legal Proceedings</u>	33
<u>Item 1A</u>	<u>Risk Factors</u>	34
<u>Item 2</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	34
<u>Item 3</u>	<u>Defaults Upon Senior Securities</u>	34
<u>Item 4</u>	<u>(Removed and Reserved)</u>	34
<u>Item 5</u>	<u>Other Information</u>	34
<u>Item 6</u>	<u>Exhibits</u>	35
<b><u>SIGNATURES</u></b>		36
	<u>EX-10.1</u>	
	<u>EX-10.2</u>	
	<u>EX-10.3</u>	
	<u>EX-15.1</u>	
	<u>EX-31.1</u>	
	<u>EX-31.2</u>	
	<u>EX-32.1</u>	
	<u>EX-32.2</u>	

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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

**BIG 5 SPORTING GOODS CORPORATION**  
**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands, except share amounts)

	<b>October 3, 2010</b>	<b>January 3, 2010</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 4,140	\$ 5,765
Accounts receivable, net of allowances of \$93 and \$223, respectively	8,628	13,398
Merchandise inventories, net	251,310	230,911
Prepaid expenses	10,336	9,683
Deferred income taxes	8,330	7,723
<b>Total current assets</b>	<b>282,744</b>	<b>267,480</b>
Property and equipment, net	79,976	81,817
Deferred income taxes	13,697	11,327
Other assets, net of accumulated amortization of \$0 and \$346, respectively	1,491	1,065
Goodwill	4,433	4,433
<b>Total assets</b>	<b>\$ 382,341</b>	<b>\$ 366,122</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 90,817	\$ 85,721
Accrued expenses	54,388	59,314
Current portion of capital lease obligations	2,060	1,904
<b>Total current liabilities</b>	<b>147,265</b>	<b>146,939</b>
Deferred rent, less current portion	24,092	23,832
Capital lease obligations, less current portion	1,886	2,278
Long-term revolving credit borrowings	55,228	54,955
Other long-term liabilities	6,538	6,257
<b>Total liabilities</b>	<b>235,009</b>	<b>234,261</b>
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.01 par value, authorized 50,000,000 shares; issued 23,299,657 and 23,050,061 shares, respectively; outstanding 21,816,362 and 21,566,766 shares, respectively	233	230
Additional paid-in capital	97,379	95,259
Retained earnings	71,086	57,738

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Less: Treasury stock, at cost; 1,483,295 shares	(21,366)	(21,366)
Total stockholders' equity	147,332	131,861
Total liabilities and stockholders' equity	\$ 382,341	\$ 366,122

See accompanying notes to unaudited condensed consolidated financial statements.

-3-

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Table of Contents

**BIG 5 SPORTING GOODS CORPORATION**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except per share data)

	13 Weeks Ended		39 Weeks Ended	
	October 3, 2010	September 27, 2009	October 3, 2010	September 27, 2009
Net sales	\$ 231,753	\$ 231,582	\$ 670,102	\$ 657,913
Cost of sales	154,337	153,073	448,170	441,002
Gross profit	77,416	78,509	221,932	216,911
Selling and administrative expense	66,301	65,327	194,366	190,194
Operating income	11,115	13,182	27,566	26,717
Interest expense	603	562	1,370	1,883
Income before income taxes	10,512	12,620	26,196	24,834
Income taxes	3,689	4,609	9,588	9,409
Net income	\$ 6,823	\$ 8,011	\$ 16,608	\$ 15,425
Earnings per share:				
Basic	\$ 0.32	\$ 0.37	\$ 0.77	\$ 0.72
Diluted	\$ 0.31	\$ 0.37	\$ 0.76	\$ 0.72
Dividends per share	\$ 0.05	\$ 0.05	\$ 0.15	\$ 0.15
Weighted-average shares of common stock outstanding:				
Basic	21,580	21,435	21,539	21,426
Diluted	21,845	21,747	21,873	21,545

See accompanying notes to unaudited condensed consolidated financial statements.

**Table of Contents**

**BIG 5 SPORTING GOODS CORPORATION**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)

	<b>39 Weeks Ended</b>	
	<b>October 3, 2010</b>	<b>September 27, 2009</b>
Cash flows from operating activities:		
Net income	\$ 16,608	\$ 15,425
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	13,975	14,417
Share-based compensation	1,333	1,589
Excess tax benefit related to share-based awards	(294)	
Amortization of debt issuance costs	66	40
Deferred income taxes	(2,977)	(3,305)
Loss (gain) on disposal of property and equipment	18	(59)
Changes in operating assets and liabilities:		
Accounts receivable, net	4,770	9,991
Merchandise inventories, net	(20,399)	569
Prepaid expenses and other assets	(693)	694
Accounts payable	6,746	4,701
Accrued expenses and other long-term liabilities	(6,506)	3,330
Net cash provided by operating activities	12,647	47,392
Cash flows from investing activities:		
Purchases of property and equipment	(8,603)	(3,169)
Proceeds from disposal of property and equipment	4	
Net cash used in investing activities	(8,599)	(3,169)
Cash flows from financing activities:		
Net payments under revolving credit facility and book overdraft	(1,593)	(44,446)
Debt issuance costs	(102)	
Principal payments under capital lease obligations	(1,524)	(1,758)
Proceeds from exercise of stock options	641	95
Excess tax benefit related to share-based awards	294	
Tax withholding payments for share-based compensation	(143)	(47)
Dividends paid	(3,246)	(3,222)
Net cash used in financing activities	(5,673)	(49,378)
Net decrease in cash and cash equivalents	(1,625)	(5,155)
Cash and cash equivalents at beginning of period	5,765	9,058
Cash and cash equivalents at end of period	\$ 4,140	\$ 3,903



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Supplemental disclosures of non-cash investing and financing activities:

Property and equipment acquired under capital leases	\$	1,310	\$	1,837
Property and equipment purchases accrued	\$	2,557	\$	787
Stock awards vested and issued to employees	\$	456	\$	182
Debt issuance costs accrued	\$	350	\$	
Supplemental disclosures of cash flow information:				
Interest paid	\$	1,114	\$	2,007
Income taxes paid	\$	10,618	\$	674

See accompanying notes to unaudited condensed consolidated financial statements.

-5-

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**Table of Contents**

**BIG 5 SPORTING GOODS CORPORATION**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(1) Description of Business**

Big 5 Sporting Goods Corporation (the Company) is a leading sporting goods retailer in the western United States, operating 391 stores in 12 states at October 3, 2010. The Company provides a full-line product offering in a traditional sporting goods store format that averages approximately 11,000 square feet. The Company's product mix includes athletic shoes, apparel and accessories, as well as a broad selection of outdoor and athletic equipment for team sports, fitness, camping, hunting, fishing, tennis, golf, snowboarding and in-line skating. The Company is a holding company that operates as one business segment through Big 5 Corp., its wholly-owned subsidiary, and Big 5 Services Corp., which is a wholly-owned subsidiary of Big 5 Corp. Big 5 Services Corp. provides a centralized operation for the issuance and administration of gift cards.

The accompanying interim unaudited condensed consolidated financial statements (Interim Financial Statements) of the Company and its wholly-owned subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and are presented in accordance with the requirements of Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, these Interim Financial Statements do not include all of the information and notes required by GAAP for complete financial statements. These Interim Financial Statements should be read in conjunction with the consolidated financial statements and notes thereto for the fiscal year ended January 3, 2010 included in the Company's Annual Report on Form 10-K/A. In the opinion of management, the Interim Financial Statements included herein contain all adjustments, including normal recurring adjustments, considered necessary to present fairly the Company's financial position, the results of operations and cash flows for the periods presented.

The operating results and cash flows of the interim periods presented herein are not necessarily indicative of the results to be expected for any other interim period or the full year.

**(2) Summary of Significant Accounting Policies**

*Consolidation*

The accompanying Interim Financial Statements include the accounts of Big 5 Sporting Goods Corporation, Big 5 Corp. and Big 5 Services Corp. Intercompany balances and transactions have been eliminated in consolidation.

*Reporting Period*

The Company follows the concept of a 52-53 week fiscal year, which ends on the Sunday nearest December 31. Fiscal year 2010 is comprised of 52 weeks and ends on January 2, 2011. Fiscal year 2009 was comprised of 53 weeks and ended on January 3, 2010. The four quarters of fiscal 2010 are each comprised of 13 weeks, while the first three quarters of fiscal 2009 were each comprised of 13 weeks, and the fourth quarter of fiscal 2009 was comprised of 14 weeks.

**Table of Contents**

**BIG 5 SPORTING GOODS CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(continued)**

*Recently Issued Accounting Updates*

There have been no recently issued accounting updates that had a material impact on the Company's Interim Financial Statements for the period ended October 3, 2010.

*Use of Estimates*

Management has made a number of estimates and assumptions relating to the reporting of assets, liabilities and stockholders' equity and the disclosure of contingent assets and liabilities at the date of the Interim Financial Statements and reported amounts of revenue and expense during the reporting period to prepare these Interim Financial Statements in conformity with GAAP. Certain items subject to such estimates and assumptions include the carrying amount of merchandise inventories, property and equipment, and goodwill; valuation allowances for receivables, sales returns and deferred income tax assets; estimates related to gift card breakage and the valuation of share-based compensation awards; and obligations related to asset retirements, litigation, self-insurance liabilities and employee benefits. Actual results could differ significantly from these estimates under different assumptions and conditions.

*Revenue Recognition*

The Company earns revenue by selling merchandise primarily through its retail stores. Revenue is recognized when merchandise is purchased by and delivered to the customer and is shown net of estimated returns during the relevant period. The allowance for sales returns is estimated based upon historical experience.

Cash received from the sale of gift cards is recorded as a liability, and revenue is recognized upon the redemption of the gift card or when it is determined that the likelihood of redemption is remote ( gift card breakage ) and no liability to relevant jurisdictions exists. The Company determines the gift card breakage rate based upon historical redemption patterns and recognizes gift card breakage on a straight-line basis over the estimated gift card redemption period (20 quarters as of the end of the third quarter of fiscal 2010). The Company recognized approximately \$107,000 and \$323,000 in gift card breakage revenue for the 13 weeks and 39 weeks ended October 3, 2010, respectively, compared to approximately \$113,000 and \$344,000 for the 13 weeks and 39 weeks ended September 27, 2009, respectively.

The Company records sales tax collected from its customers on a net basis, and therefore excludes it from revenue as defined in Accounting Standards Codification ( ASC ) 605, *Revenue Recognition*.

Included in revenue are sales of returned merchandise to vendors specializing in the resale of defective or used products, which accounted for less than 1% of net sales in each of the periods reported.

*Valuation of Merchandise Inventories*

The Company's merchandise inventories are made up of finished goods and are valued at the lower of cost or market using the weighted-average cost method that approximates the first-in,

**Table of Contents**

**BIG 5 SPORTING GOODS CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(continued)**

first-out ( FIFO ) method. Average cost includes the direct purchase price of merchandise inventory, net of vendor allowances and cash discounts, and allocated overhead costs associated with the Company's distribution center.

Management regularly reviews inventories and records valuation reserves for merchandise damage and defective returns, merchandise items with slow-moving or obsolescence exposure and merchandise that has a carrying value that exceeds market value. Because of its merchandise mix, the Company has not historically experienced significant occurrences of obsolescence.

Inventory shrinkage is accrued as a percentage of merchandise sales based on historical inventory shrinkage trends. The Company performs physical inventories of its stores at least once per year and cycle counts inventories at its distribution center throughout the year. The reserve for inventory shrinkage represents an estimate for inventory shrinkage for each store since the last physical inventory date through the reporting date.

These reserves are estimates, which could vary significantly, either favorably or unfavorably, from actual results if future economic conditions, consumer demand and competitive environments differ from expectations.

*Leases and Deferred Rent*

The Company accounts for its leases under the provisions of ASC 840, *Leases*.

The Company evaluates and classifies its leases as either operating or capital leases for financial reporting purposes. Operating lease commitments consist principally of leases for the Company's retail store facilities, distribution center and corporate office. Capital lease obligations consist principally of leases for some of the Company's distribution center delivery tractors, management information systems hardware and point-of-sale equipment for the Company's stores.

Certain of the leases for the Company's retail store facilities provide for payments based on future sales volumes at the leased location, which are not measurable at the inception of the lease. These contingent rents are expensed as they accrue.

Deferred rent represents the difference between rent paid and the amounts expensed for operating leases. Certain leases have scheduled rent increases, and certain leases include an initial period of free or reduced rent as an inducement to enter into the lease agreement ( rent holidays ). The Company recognizes rent expense for rent increases and rent holidays on a straight-line basis over the term of the underlying leases, without regard to when rent payments are made. The calculation of straight-line rent is based on the reasonably assured lease term as defined in ASC 840 and may exceed the initial non-cancelable lease term.

Landlord allowances for tenant improvements, or lease incentives, are recorded as deferred rent and amortized on a straight-line basis over the lease term as a component of rent expense.

**Table of Contents**

**BIG 5 SPORTING GOODS CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(continued)**

**(3) Fair Value Measurements**

The carrying value of cash, accounts receivable, accounts payable and accrued expenses approximate the fair values of these instruments due to their short-term nature. The carrying amount for borrowings under the Company's financing agreement approximates fair value because of the variable market interest rate charged to the Company for these borrowings.

**(4) Accrued Expenses**

Accrued expenses consist of the following:

	<b>October 3, 2010</b>	<b>January 3, 2010</b>
	(In thousands)	
Payroll and related expense	\$ 17,506	\$ 18,472
Occupancy costs	8,982	7,634
Sales tax	7,359	10,379
Advertising	4,095	6,202
Other	16,446	16,627
Accrued expenses	\$ 54,388	\$ 59,314

**(5) Revolving Credit Borrowings**

The Company's prior financing agreement with The CIT Group/Business Credit, Inc. (CIT) and a syndicate of other lenders, as amended (the Prior Financing Agreement), which was terminated and replaced on October 18, 2010 as discussed below), originally provided for a line of credit up to \$175.0 million. In the second quarter of fiscal 2010, the Company permanently reduced the line of credit available under the Prior Financing Agreement to \$140.0 million. The Prior Financing Agreement had an initial termination date of March 20, 2011.

On October 18, 2010, the Company entered into a new credit agreement (the New Credit Agreement) with Wells Fargo Bank, National Association (Wells Fargo), as administrative agent, and a syndicate of other lenders. The New Credit Agreement provides for a revolving credit facility (the Credit Facility) with an aggregate committed availability of up to \$140.0 million, which amount may be increased at the Company's option up to a maximum of \$165.0 million. The Company used proceeds from its initial borrowing under the New Credit Agreement to repay all of its outstanding indebtedness under the Prior Financing Agreement at which time the Prior Financing Agreement was terminated.

The Company may borrow under the Credit Facility from time to time, provided the amounts outstanding will not exceed the lesser of the then aggregate availability (as described above) and the Borrowing Base (such lesser amount being referred to as the Loan Cap). The Borrowing Base generally is comprised of the sum, at the time of calculation of (a) 90.00% of eligible credit card accounts receivable; plus (b)(i) during the period of September 15 through December 15 of each year, the cost of eligible inventory, net of inventory reserves, multiplied by 90.00% of the appraised net orderly liquidation value of eligible inventory (expressed as a percentage of the cost of eligible inventory); and (ii) at all other times, the cost of eligible inventory, net of inventory reserves, multiplied by 85.00% of the appraised net orderly liquidation value of eligible inventory (expressed as a percentage of the cost of eligible inventory); plus (c) the lesser of (i) the cost of eligible in-transit inventory, net of inventory reserves, multiplied by 85.00% of the appraised net orderly liquidation value of eligible in-transit inventory (expressed as a percentage of the cost of eligible in-transit inventory), or (ii) \$10.0 million, minus (d) certain reserves established by Wells Fargo in its role as the Administrative Agent in its reasonable discretion.

Generally, the Company may designate specific borrowings under the Credit Facility as either base rate loans or LIBO rate loans. In each case, the applicable interest rate will be a function of the daily average, over the preceding

fiscal quarter, of the excess of the Loan Cap over amounts outstanding under the Credit Facility (such amount being referred to as the Average Daily Excess Availability ).

-9-

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**Table of Contents**

**BIG 5 SPORTING GOODS CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(continued)**

Those loans designated as LIBO rate loans shall bear interest at a rate equal to the then applicable LIBO rate plus an applicable margin as shown in the table below. Those loans designated as base rate loans shall bear interest at a rate equal to the applicable margin for base rate loans (as shown below) plus the highest of (a) the Federal funds rate, as in effect from time to time, plus one-half of one percent (0.50%), (b) the LIBO rate, as adjusted to account for statutory reserves, plus one percent (1.00%), or (c) the rate of interest in effect for such day as publicly announced from time to time by Wells Fargo as its prime rate .

The applicable margin shall be as set forth for Level II in the table below from October 18, 2010 through January 2, 2011. Thereafter, the applicable margin for all loans will be as set forth below as a function of Average Daily Excess Availability for the preceding fiscal quarter.

<b>Level</b>	<b>Average Daily Excess Availability</b>	<b>LIBO Rate Applicable Margin</b>	<b>Base Rate Applicable Margin</b>
I	Greater than 50% of the Loan Cap	2.00%	1.00%
II	Less than or equal to 50% of the Loan Cap	2.25%	1.25%

Obligations under the New Credit Agreement are secured by a general lien and perfected security interest in substantially all of the Company's assets, including accounts receivable, documents, equipment, general intangibles and inventory.

In connection with the termination of the Prior Financing Agreement, the Company recorded in interest expense a one-time early termination fee and wrote off the remaining deferred

**Table of Contents**

**BIG 5 SPORTING GOODS CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(continued)**

debt issuance costs totaling \$0.3 million. The Company also capitalized \$0.5 million of debt issuance costs associated with the New Credit Agreement into other assets as of October 3, 2010.

The Company classified its revolving credit borrowings as long-term as of October 3, 2010 in accordance with ASC 470, *Debt*, as such borrowings were refinanced on a long-term basis under the New Credit Agreement. Long-term revolving credit borrowings were \$55.2 million and \$55.0 million as of October 3, 2010, and January 3, 2010, respectively, and total remaining borrowing availability under the Prior Financing Agreement, after subtracting letters of credit, was \$84.0 million and \$94.3 million as of October 3, 2010 and January 3, 2010, respectively.

**(6) Income Taxes**

Under the asset and liability method prescribed under ASC 740, *Income Taxes*, the Company recognizes deferred tax assets and liabilities for the future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. The realizability of deferred tax assets is assessed throughout the year and a valuation allowance is recorded if necessary to reduce net deferred tax assets to the amount more likely than not to be realized.

The Company files a consolidated federal income tax return and files tax returns in various state and local jurisdictions. The statutes of limitations for consolidated federal income tax returns are open for tax years 2007 and after, and state and local income tax returns are open for tax years 2005 and after.

At October 3, 2010 and January 3, 2010, the Company had no unrecognized tax benefits that, if recognized, would affect the Company's effective income tax rate over the next 12 months. The Company's policy is to recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expense. At October 3, 2010 and January 3, 2010, the Company had no accrued interest or penalties.



**Table of Contents**

**BIG 5 SPORTING GOODS CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(continued)**

**(7) Share-based Compensation**

At its discretion, the Company grants share option awards or nonvested share awards to certain employees, as defined by ASC 718, *Compensation - Stock Compensation*, under the Company's 2007 Equity and Performance Incentive Plan (the Plan) and accounts for its share-based compensation in accordance with ASC 718. The Company recognized approximately \$0.4 million and \$1.3 million in share-based compensation expense, including share option awards and nonvested share awards, for the 13 weeks and 39 weeks ended October 3, 2010, respectively, compared to \$0.6 million and \$1.6 million for the 13 weeks and 39 weeks ended September 27, 2009, respectively.

*Share Option Awards*

Share option awards granted by the Company generally vest and become exercisable at the rate of 25% per year with a maximum life of ten years. The exercise price of the share option awards is equal to the quoted market price of the Company's common stock on the date of grant. In the 39 weeks ended October 3, 2010, the Company granted 12,000 share option awards. The weighted-average grant-date fair value per option for share option awards granted in the 39 weeks ended October 3, 2010 and September 27, 2009 was \$6.26 and \$1.92, respectively.

The fair value of each share option award on the date of grant is estimated using the Black-Scholes method based on the following weighted-average assumptions:

	<b>13 Weeks Ended</b>		<b>39 Weeks Ended</b>	
	<b>October 3, 2010*</b>	<b>September 27, 2009*</b>	<b>October 3, 2010</b>	<b>September 27, 2009</b>
Risk-free interest rate			2.4%	2.3%
Expected term			6.50 years	6.50 years
Expected volatility			55.2%	55.2%
Expected dividend yield			1.54%	4.07%

\* No share options were granted during the 13 weeks ended October 3, 2010 and September 27, 2009.

The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected term of the share option award; the expected term represents the weighted-average period of time that share option awards granted are expected to be outstanding giving consideration to vesting schedules and historical participant exercise behavior; the expected volatility is based upon historical volatility of the Company's common stock; and the expected dividend yield is based upon the Company's current dividend rate and future expectations.

As of October 3, 2010, there was \$1.1 million of total unrecognized compensation cost related to nonvested share option awards granted. That cost is expected to be recognized over a weighted-average period of 2.1 years.

**Table of Contents**

**BIG 5 SPORTING GOODS CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(continued)**

*Nonvested Share Awards*

In the 39 weeks ended October 3, 2010, the Company granted 172,000 nonvested share awards. The weighted-average grant-date fair value per share of the Company's nonvested share awards granted in the 39 weeks ended October 3, 2010 was \$15.52.

The following table details the Company's nonvested share awards activity for the 39 weeks ended October 3, 2010:

	Shares	Weighted-Average Grant-Date Fair Value
Balance at January 3, 2010	92,925	\$ 8.60
Granted	172,000	15.52
Vested	(29,875)	8.45
Forfeited	(1,000)	11.81
Balance at October 3, 2010	234,050	\$ 13.69

The weighted-average grant-date fair value of nonvested share awards is the quoted market price of the Company's common stock on the date of grant, as shown in the table above.

Nonvested share awards granted by the Company vest from the date of grant in four equal annual installments of 25% per year.

As of October 3, 2010, there was \$2.6 million of total unrecognized compensation cost related to nonvested share awards. That cost is expected to be recognized over a weighted-average period of 3.0 years.

To satisfy employee minimum statutory tax withholding requirements for nonvested share awards that vest, the Company withholds and retires a portion of the vesting common shares, unless an employee elects to pay cash. In the 39 weeks ended October 3, 2010, the Company withheld 9,104 common shares with a total value of \$143,000. This amount is presented as a cash outflow from financing activities in the accompanying interim unaudited condensed consolidated statements of cash flows.

Table of Contents

**BIG 5 SPORTING GOODS CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(continued)**

**(8) Earnings Per Share**

The Company calculates earnings per share in accordance with ASC 260, *Earnings Per Share*, which requires a dual presentation of basic and diluted earnings per share. Basic earnings per share is calculated by dividing net income by the weighted-average shares of common stock outstanding, reduced by shares repurchased and held in treasury, during the period. Diluted earnings per share represents basic earnings per share adjusted to include the potentially dilutive effect of outstanding share option awards and nonvested share awards.

The following table sets forth the computation of basic and diluted net income per common share:

	<b>13 Weeks Ended</b>		<b>39 Weeks Ended</b>	
	<b>October 3, 2010</b>	<b>September 27, 2009</b>	<b>October 3, 2010</b>	<b>September 27, 2009</b>
	<b>(In thousands, except per share amounts)</b>			
Net income	\$ 6,823	\$ 8,011	\$ 16,608	\$ 15,425
Weighted-average shares of common stock outstanding:				
Basic	21,580	21,435	21,539	21,426
Dilutive effect of common stock equivalents arising from share option awards and nonvested share awards	265	312	334	119
Diluted	21,845	21,747	21,873	21,545
Basic earnings per share	\$ 0.32	\$ 0.37	\$ 0.77	\$ 0.72
Diluted earnings per share	\$ 0.31	\$ 0.37	\$ 0.76	\$ 0.72

The computation of diluted earnings per share for the 13 weeks ended October 3, 2010, the 39 weeks ended October 3, 2010, the 13 weeks ended September 27, 2009 and the 39 weeks ended September 27, 2009 does not include share option awards in the amounts of 922,948, 892,575, 896,342 and 1,391,737, respectively, that were outstanding and antidilutive (i.e., including such share option awards would result in higher earnings per share), since the exercise prices of these share option awards exceeded the average market price of the Company's common shares.

The computation of diluted earnings per share for the 13 weeks ended October 3, 2010, the 39 weeks ended October 3, 2010 and the 39 weeks ended September 27, 2009 does not include nonvested share awards in the amounts of 159,610, 244 and 4,879 shares that were outstanding and antidilutive. No nonvested share awards were antidilutive for the 13 weeks ended September 27, 2009.

**Table of Contents**

**BIG 5 SPORTING GOODS CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(continued)**

The Company did not repurchase any shares of its common stock in fiscal 2009 or the first three quarters of fiscal 2010. Since the inception of its initial share repurchase program in May 2006 through October 3, 2010, the Company has repurchased a total of 1,369,085 shares for \$20.8 million, leaving a total of \$14.2 million available for share repurchases under the current share repurchase program.

**(9) Commitments and Contingencies**

On August 6, 2009, the Company was served with a complaint filed in the California Superior Court for the County of San Diego, entitled *Shane Weyl v. Big 5 Corp., et al.*, Case No. 37-2009-00093109-CU-OE-CTL, alleging violations of the California Labor Code and the California Business and Professions Code. The complaint was brought as a purported class action on behalf of the Company's hourly employees in California for the four years prior to the filing of the complaint. The plaintiff alleges, among other things, that the Company failed to provide hourly employees with meal and rest periods and failed to pay wages within required time periods during employment and upon termination of employment. The plaintiff seeks, on behalf of the class members, an award of one hour of pay (wages) for each workday that a meal or rest period was not provided; restitution of unpaid wages; actual, consequential and incidental losses and damages; pre-judgment interest; statutory penalties including an additional thirty days' wages for each hourly employee in California whose employment terminated in the four years preceding the filing of the complaint; civil penalties; an award of attorneys' fees and costs; and injunctive and declaratory relief. On December 14, 2009, the parties engaged in mediation and agreed to settle the lawsuit. On February 4, 2010, the parties filed a joint settlement and a motion to preliminarily approve the settlement with the court. On July 16, 2010, the court granted preliminary approval of the settlement and scheduled a hearing for December 10, 2010, to consider final approval of the settlement. Under the terms of the settlement, the Company agreed to pay up to a maximum amount of \$2.0 million, which includes payments to class members who submit valid and timely claim forms, plaintiff's attorneys' fees and expenses, an enhancement payment to the class representative, claims administrator fees and payment to the California Labor and Workforce Development Agency. Under the settlement, in the event that fewer than all class members submit valid and timely claims, the total amount required to be paid by the Company will be reduced, subject to a minimum payment amount calculated in the manner provided in the settlement agreement. The Company's anticipated total payments pursuant to this settlement have been reflected in a legal settlement accrual recorded in the fourth quarter of fiscal 2009. The Company admitted no liability or wrongdoing with respect to the claims set forth in the lawsuit. Once final approval is granted, the settlement will constitute a full and complete settlement and release of all claims related to the lawsuit. If the court does not grant final approval of the settlement, the Company intends to defend the lawsuit vigorously. If the settlement is not finally approved by the court and the lawsuit is resolved unfavorably to the Company, this litigation, the costs of defending it and any required change in the Company's labor practices could have a material negative impact on the Company's results of operations and financial condition.

On August 13, 2009, the Company was served with a complaint filed in the California Superior Court for the County of San Diego, entitled *Michael Kelly v. Big 5 Sporting Goods*

Table of Contents

**BIG 5 SPORTING GOODS CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(continued)**

Corporation, et al., Case No. 37-2009-00095594-CU-MC-CTL, alleging violations of the California Business and Professions Code and California Civil Code. The complaint was brought as a purported class action on behalf of persons who purchased certain tennis, racquetball and squash racquets from the Company. The plaintiff alleges, among other things, that the Company employed deceptive pricing, marketing and advertising practices with respect to the sale of such rackets. The plaintiff seeks, on behalf of the class members, unspecified amounts of damages and/or restitution; attorneys' fees and costs; and injunctive relief to require the Company to discontinue the allegedly improper conduct. On July 20, 2010, the plaintiff filed with the court a Motion for Class Certification. On September 1, 2010, the plaintiff and the Company engaged in mediation in an effort to negotiate a settlement agreement, but the mediation adjourned without a settlement. Any settlement agreement would be subject to court approval. On September 24, 2010, the Company filed with the court an Opposition to Plaintiff's Motion for Class Certification. Currently the court is scheduled to conduct a hearing regarding plaintiff's Motion for Class Certification on November 30, 2010, and a trial on the merits of plaintiff's claims on February 18, 2011. If the plaintiff and the Company are unable to negotiate a settlement agreement, the Company intends to defend the lawsuit vigorously. Because this dispute remains in the preliminary stages and, among other things, discovery is still ongoing, the Company is not able to evaluate the likelihood of a settlement or an unfavorable outcome in this case or to estimate a range of potential loss in the event of a settlement or an unfavorable outcome in this case at the present time. If settled or resolved unfavorably to the Company, this litigation, the costs of defending it and any resulting required change in the business practices of the Company could have a material negative impact on the Company's results of operations and financial condition.

The Company is involved in various other claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters is not expected to have a material negative impact on the Company's financial position, results of operations or liquidity.

**(10) Subsequent Event**

In the fourth quarter of fiscal 2010, the Company's Board of Directors declared a quarterly cash dividend of \$0.05 per share of outstanding common stock, which will be paid on December 15, 2010 to stockholders of record as of December 1, 2010.

On October 18, 2010, the Company entered into a new credit agreement, as described more fully in Note 5 of these Interim Financial Statements, as well as in Part I, Item 2, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, in this Quarterly Report on Form 10-Q.

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of  
Big 5 Sporting Goods Corporation  
El Segundo, California

We have reviewed the accompanying condensed consolidated balance sheet of Big 5 Sporting Goods Corporation and subsidiaries (the Corporation) as of October 3, 2010 and the related condensed consolidated statements of operations for the 13 week and 39 week periods ended October 3, 2010 and September 27, 2009, and of cash flows for the 39 week periods ended October 3, 2010 and September 27, 2009. These interim financial statements are the responsibility of the Corporation's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Big 5 Sporting Goods Corporation and subsidiaries as of January 3, 2010, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated March 3, 2010, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of January 3, 2010 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ DELOITTE & TOUCHE LLP

Los Angeles, California

November 3, 2010

**Table of Contents**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion and analysis of the Big 5 Sporting Goods Corporation ( we , our , us ) financial condition and results of operations includes information with respect to our plans and strategies for our business and should be read in conjunction with our interim unaudited condensed consolidated financial statements and related notes ( Interim Financial Statements ) included herein and our consolidated financial statements and related notes, and *Management's Discussion and Analysis of Financial Condition and Results of Operations* contained in our Annual Report on Form 10-K/A for the fiscal year ended January 3, 2010.

**Overview**

We are a leading sporting goods retailer in the western United States, operating 391 stores in 12 states under the name Big 5 Sporting Goods at October 3, 2010. We provide a full-line product offering in a traditional sporting goods store format that averages approximately 11,000 square feet. Our product mix includes athletic shoes, apparel and accessories, as well as a broad selection of outdoor and athletic equipment for team sports, fitness, camping, hunting, fishing, tennis, golf, snowboarding and in-line skating.

**Executive Summary**

Our operating results for the third quarter of fiscal 2010 and the third quarter of fiscal 2009 reflect a difficult environment for retailers resulting from the economic recession and uncertainty in the financial sector. If measures implemented by the federal and state governments or private sector spending fail to stimulate a prolonged economic recovery, this economic recession could continue, which may continue to impact our operating results.

Net sales for the third quarter of fiscal 2010 increased 0.1% to \$231.8 million compared to \$231.6 million for the third quarter of fiscal 2009. The net sales comparison to the prior year was negatively impacted by a calendar shift as we transition to a 52-week fiscal year in 2010 from a 53-week fiscal year in 2009. This calendar shift resulted in net sales for a higher volume sales week leading up to the Fourth of July holiday being included in the second quarter of fiscal 2010, while net sales for this period were included in the third quarter of fiscal 2009. This period was replaced in the third quarter of fiscal 2010 by a lower volume sales week which was included in net sales in the fourth quarter of fiscal 2009.

Same store sales increased 2.0% in the 13 weeks ended October 3, 2010 versus the comparable 13-week period in the prior year. Same store sales for a period reflect net sales from stores that operated throughout the period as well as the corresponding prior period; e.g., comparable quarterly reporting periods for quarterly comparisons.

Net income for the third quarter of fiscal 2010 decreased 15.0% to \$6.8 million, or \$0.31 per diluted share, compared to \$8.0 million, or \$0.37 per diluted share, for the third quarter of fiscal 2009. The decrease in net income primarily reflected lower

**Table of Contents**

merchandise margins and the deleveraging of selling and administrative expense due in part to the impact of the calendar shift, as discussed under net sales above.

Gross profit as a percentage of net sales for the third quarter of fiscal 2010 decreased by approximately 50 basis points to 33.4% compared to the third quarter of fiscal 2009, primarily as a result of lower merchandise margins and higher store occupancy costs as a percentage of net sales due in part to the impact of the calendar shift, as discussed under net sales above.

Selling and administrative expense for the third quarter of fiscal 2010 increased 1.5% to \$66.3 million, or 28.6% of net sales, compared to \$65.3 million, or 28.2% of net sales, for the third quarter of fiscal 2009. The increase was primarily attributable to higher store-related expense, excluding occupancy, as a result of new store openings. Selling and administrative expense as a percentage of net sales was also negatively impacted by the calendar shift, as discussed under net sales above.

Operating income for the third quarter of fiscal 2010 decreased 15.9% to \$11.1 million, or 4.8% of net sales, compared to \$13.2 million, or 5.7% of net sales, for the third quarter of fiscal 2009. The lower operating income primarily reflects a lower gross margin percentage and higher selling and administrative expense and occupancy costs as a percentage of net sales, due in part to the impact of the calendar shift, as discussed under net sales above.



**Table of Contents****Results of Operations**

The results of the interim periods are not necessarily indicative of results for the entire fiscal year.

*13 Weeks Ended October 3, 2010 Compared to 13 Weeks Ended September 27, 2009*

The following table sets forth selected items from our interim unaudited condensed consolidated statements of operations by dollar and as a percentage of our net sales for the periods indicated:

	<b>October 3, 2010</b>	<b>13 Weeks Ended</b>		<b>September 27, 2009</b>
		<b>(In thousands, except percentages)</b>		
Net sales	\$ 231,753	100.0%	\$ 231,582	100.0%
Cost of sales <sup>(1)</sup>	154,337	66.6	153,073	66.1
Gross profit	77,416	33.4	78,509	33.9
Selling and administrative expense <sup>(2)</sup>	66,301	28.6	65,327	28.2
Operating income	11,115	4.8	13,182	5.7
Interest expense	603	0.3	562	0.2
Income before income taxes	10,512	4.5	12,620	5.5
Income taxes	3,689	1.6	4,609	2.0
Net income	\$ 6,823	2.9%	\$ 8,011	3.5%

(1) Cost of sales includes the cost of merchandise, net of discounts or allowances earned, freight, inventory shrinkage, buying, distribution center costs and store occupancy costs. Store occupancy costs include rent, amortization of leasehold improvements, common area maintenance, property taxes and insurance.

- (2) Selling and administrative expense includes store-related expense, other than store occupancy costs, as well as advertising, depreciation and amortization and expense associated with operating our corporate headquarters.

*Net Sales.* Net sales increased by \$0.2 million, or 0.1%, to \$231.8 million in the 13 weeks ended October 3, 2010 from \$231.6 million in the third quarter last year. The change in net sales reflected the following:

New store sales increased, reflecting the opening of nine new stores, net of relocations, since June 28, 2009.

Same store sales increased 2.0% in the 13 weeks ended October 3, 2010 versus the comparable 13-week period in the prior year. Same store sales for a period reflect net sales from stores that operated throughout the period as well as the corresponding prior period; e.g., comparable quarterly reporting periods for quarterly comparisons.

Customer traffic into our retail stores increased for the 13 weeks ended October 3, 2010 versus the comparable 13-week period in the prior year.

**Table of Contents**

Net sales for the third quarter of fiscal 2010 compared to the prior year reflected a negative effect of approximately \$7.3 million related to a calendar shift, as we transition to a 52-week fiscal year in 2010 from a 53-week fiscal year in 2009. This calendar shift resulted in net sales for a higher volume sales week leading up to the Fourth of July holiday being included in the second quarter of fiscal 2010, while net sales for this period were included in the third quarter of fiscal 2009. This period was replaced in the third quarter of fiscal 2010 by a lower volume sales week which was included in net sales in the fourth quarter of fiscal 2009.

Store count at October 3, 2010 was 391 versus 382 at September 27, 2009. We opened three new stores in the 13 weeks ended October 3, 2010, while we did not open any new stores in the 13 weeks ended September 27, 2009. We expect to open 11 new stores and four relocations in fiscal 2010. Of the four relocations, we closed one store in fiscal 2010 and expect to close the three remaining stores relocated in fiscal 2010 in early fiscal 2011.

*Gross Profit.* Gross profit decreased by \$1.1 million, or 1.4%, to \$77.4 million, or 33.4% of net sales, in the 13 weeks ended October 3, 2010 from \$78.5 million, or 33.9% of net sales, in the 13 weeks ended September 27, 2009. The change in gross profit was primarily attributable to the following:

Merchandise margins, which exclude buying, occupancy and distribution costs, decreased approximately 50 basis points versus the third quarter last year, primarily reflecting shifts in product sales mix.

Store occupancy costs increased by \$0.5 million year over year, primarily reflecting the expense for new stores.

Distribution costs, including costs capitalized into inventory, decreased \$1.1 million, or 9.8%, compared to the same period last year.

Gross profit was also negatively impacted by the calendar shift, as discussed under *Net Sales* above.

*Selling and Administrative Expense.* Selling and administrative expense increased by \$1.0 million to \$66.3 million, or 28.6% of net sales, in the 13 weeks ended October 3, 2010 from \$65.3 million, or 28.2% of net sales, in the same period last year. The increase in selling and administrative expense compared to the prior year was largely attributable to an increase in store-related expense, excluding occupancy, of \$1.4 million due mainly to higher labor and operating costs to support the increase in store count, partially offset by a decline in advertising and administrative support expense. Selling and administrative expense as a percentage of net sales was also negatively impacted by the calendar shift, as discussed under *Net Sales* above.

*Interest Expense.* Interest expense remained relatively unchanged at \$0.6 million in the 13 weeks ended October 3, 2010 compared to the same period last year. Interest expense on our borrowings decreased \$0.2 million in the 13 weeks ended October 3, 2010 compared to the same period last year. This decrease was due to a reduction in average debt levels of approximately \$22.2 million to \$51.8 million in the third quarter of fiscal 2010 from \$74.0

**Table of Contents**

million in the third quarter last year, combined with a reduction in average interest rates of approximately 20 basis points to 1.9% in the third quarter of fiscal 2010 from 2.1% in the same period last year. Interest expense in the 13 weeks ended October 3, 2010 also reflects a one-time early termination fee and the write off of the remaining deferred debt issuance costs of \$0.3 million associated with the termination of our prior financing agreement with The CIT Group/Business Credit, Inc. ( CIT ) and a syndicate of other lenders as discussed in the *Financing Agreement* section of *Liquidity and Capital Resources* below.

*Income Taxes.* The provision for income taxes was \$3.7 million for the 13 weeks ended October 3, 2010 and \$4.6 million for the 13 weeks ended September 27, 2009. Our effective tax rate was 35.1% for the third quarter of fiscal 2010 compared with 36.5% for the third quarter of fiscal 2009. Our lower effective tax rate for the third quarter of fiscal 2010 compared to the same period last year primarily reflects an increased benefit from income tax credits taken in the third quarter of fiscal 2010.

*39 Weeks Ended October 3, 2010 Compared to 39 Weeks Ended September 27, 2009*

The following table sets forth selected items from our interim unaudited condensed consolidated statements of operations by dollar and as a percentage of our net sales for the periods indicated:

	<b>39 Weeks Ended</b>			
	<b>October 3, 2010</b>		<b>September 27, 2009</b>	
	<b>(In thousands, except percentages)</b>			
Net sales	\$ 670,102	100.0%	\$ 657,913	100.0%
Cost of sales <sup>(1)</sup>	448,170	66.9	441,002	67.0
Gross profit	221,932	33.1	216,911	33.0
Selling and administrative expense <sup>(2)</sup>	194,366	29.0	190,194	28.9
Operating income	27,566	4.1	26,717	4.1
Interest expense	1,370	0.2	1,883	0.3
Income before income taxes	26,196	3.9	24,834	3.8
Income taxes	9,588	1.4	9,409	1.4
Net income	\$ 16,608	2.5%	\$ 15,425	2.4%

<sup>(1)</sup> Cost of sales includes the cost of merchandise, net of discounts or allowances earned, freight, inventory shrinkage, buying, distribution center costs and store occupancy costs. Store occupancy costs

include rent,  
amortization of  
leasehold  
improvements,  
common area  
maintenance,  
property taxes  
and insurance.

- (2) Selling and  
administrative  
expense  
includes  
store-related  
expense, other  
than store  
occupancy  
costs, as well as  
advertising,  
depreciation and  
amortization  
and expense  
associated with  
operating our  
corporate  
headquarters.

*Net Sales.* Net sales increased by \$12.2 million, or 1.9%, to \$670.1 million in the 39 weeks ended October 3, 2010 from \$657.9 million in the 39 weeks ended September 27, 2009. The increase in net sales was primarily attributable to the following:

New store sales increased, reflecting the opening of ten new stores, net of relocations, since December 28, 2008.

**Table of Contents**

Same store sales increased 1.3% in the 39 weeks ended October 3, 2010 versus the comparable 39-week period in the prior year. Same store sales for a period reflect net sales from stores that operated throughout the period as well as the corresponding prior period; e.g., comparable year-to-date reporting periods for year-to-date comparisons.

Customer traffic into our retail stores increased for the 39 weeks ended October 3, 2010 when compared with the 39 weeks ended September 27, 2009.

Store count at October 3, 2010 was 391 versus 382 at September 27, 2009. We opened seven new stores, net of relocations, in the 39 weeks ended October 3, 2010, while we opened one new store in the 39 weeks ended September 27, 2009. We expect to open 11 new stores and four relocations in fiscal 2010. Of the four relocations, we closed one store in fiscal 2010 and expect to close the three remaining stores relocated in fiscal 2010 in early fiscal 2011.

*Gross Profit.* Gross profit increased by \$5.0 million, or 2.3%, to \$221.9 million, or 33.1% of net sales, in the 39 weeks ended October 3, 2010 from \$216.9 million, or 33.0% of net sales, in the 39 weeks ended September 27, 2009. The change in gross profit was primarily attributable to the following:

Net sales increased by \$12.2 million in the 39 weeks ended October 3, 2010 compared to the 39 weeks ended September 27, 2009.

Distribution costs, including costs capitalized into inventory, decreased \$2.3 million compared to the same period last year. Distribution costs as a percentage of net sales decreased approximately 40 basis points year over year.

Store occupancy costs increased by \$1.8 million, or approximately 10 basis points, year over year, primarily reflecting the expense for new stores.

Merchandise margins, which exclude buying, occupancy and distribution costs, decreased approximately ten basis points year over year, primarily reflecting shifts in product sales mix.

*Selling and Administrative Expense.* Selling and administrative expense increased by \$4.2 million to \$194.4 million, or 29.0% of net sales, in the 39 weeks ended October 3, 2010 from \$190.2 million, or 28.9% of net sales, in the same period last year. The increase in selling and administrative expense compared to the same period last year was largely attributable to an increase in store-related expense, excluding occupancy, of \$4.2 million due mainly to higher labor and operating costs to support the increase in store count.

*Interest Expense.* Interest expense decreased by \$0.5 million, or 27.2%, to \$1.4 million in the 39 weeks ended October 3, 2010 from \$1.9 million in the same period last year. This decrease was due to a reduction in average debt levels of approximately \$26.1 million to \$55.1 million in the 39 weeks ended October 3, 2010 from \$81.2 million in the same period last year, combined with a reduction in average interest rates of approximately 50 basis points to 1.7% in the 39 weeks ended October 3, 2010 from 2.2% in the same period

**Table of Contents**

last year. Interest expense in the 39 weeks ended October 3, 2010 reflects a one-time early termination fee and the write off of the remaining deferred debt issuance costs of \$0.3 million associated with the termination of our prior financing agreement with CIT as discussed in the *Financing Agreement* section of *Liquidity and Capital Resources* below.

*Income Taxes.* The provision for income taxes was \$9.6 million for the 39 weeks ended October 3, 2010 and \$9.4 million for the 39 weeks ended September 27, 2009, primarily reflecting our higher pre-tax income. Our effective tax rate was 36.6% for the 39 weeks ended October 3, 2010 compared with 37.9% for the 39 weeks ended September 27, 2009. Our lower effective tax rate for the 39 weeks ended October 3, 2010 compared to the same period last year primarily reflects an increased benefit from income tax credits taken in fiscal 2010.

**Liquidity and Capital Resources**

Our principal liquidity requirements are for working capital, capital expenditures and cash dividends. We fund our liquidity requirements primarily through cash on hand, cash flows from operations and borrowings from our revolving credit facility. On October 18, 2010, we replaced our Prior Financing Agreement (as defined in the *Financing Agreement* section below). We believe our cash on hand, future funds from operations and borrowings from our Credit Facility (as defined in the *Financing Agreement* section below) will be sufficient to fund our cash requirements for at least the next 12 months. There is no assurance, however, that we will be able to generate sufficient cash flows from operations or maintain our ability to borrow under our Credit Facility (as defined in the *Financing Agreement* section below).

We ended the 39 weeks ended October 3, 2010 with \$4.1 million of cash and cash equivalents compared with \$3.9 million at the end of the same period in fiscal 2009. Our cash flows from operating, investing and financing activities for the 39 weeks ended October 3, 2010 and September 27, 2009 were as follows:

	<b>39 Weeks Ended</b>	
	<b>October 3, 2010</b>	<b>September 27, 2009</b>
	<b>(In thousands)</b>	
Net cash provided by (used in):		
Operating activities	\$ 12,647	\$ 47,392
Investing activities	(8,599)	(3,169)
Financing activities	(5,673)	(49,378)
Net decrease in cash and cash equivalents	\$ (1,625)	\$ (5,155)

*Operating Activities.* Net cash provided by operating activities for the 39 weeks ended October 3, 2010 and September 27, 2009 was \$12.6 million and \$47.4 million, respectively. The decrease in cash provided by operating activities for the 39 weeks ended October 3, 2010 compared to the same period last year primarily reflects increased merchandise inventory purchases along with increased funding of accrued expenses and a smaller reduction in accounts receivable. Our increase in inventory purchasing year-to-date during fiscal 2010 compared with fiscal 2009 primarily reflected an anticipated improvement in business conditions, increased availability of certain products this year, opportunistic

**Table of Contents**

buying, bringing in seasonal product earlier to avoid potential delivery delays and the one-week calendar shift, as described in the *Results of Operations* section above, that resulted in the fiscal 2010 third quarter ending one week closer to the holiday selling season.

*Investing Activities.* Net cash used in investing activities for the 39 weeks ended October 3, 2010 and September 27, 2009 was \$8.6 million and \$3.2 million, respectively. Capital expenditures, excluding non-cash property and equipment acquisitions, represented substantially all of the net cash used in investing activities for both periods. This increase was primarily attributable to the resumption in store expansion activity, after a slowdown in fiscal 2009 due to the economic recession, and a corresponding increase in new store capital expenditures.

*Financing Activities.* Net cash used in financing activities for the 39 weeks ended October 3, 2010 and September 27, 2009 was \$5.7 million and \$49.4 million. For both periods, cash was used primarily to pay dividends and pay down our revolving credit borrowings. The lower paydown of our revolving credit borrowings in fiscal 2010 compared with fiscal 2009 primarily reflects this year's increased funding of inventory purchases along with the resumption of our new store expansion program after scaling back such investments in fiscal 2009 in response to the recession.

As of October 3, 2010, we had revolving credit borrowings of \$55.2 million and letter of credit commitments of \$0.8 million outstanding. These balances compare to revolving credit borrowings of \$55.0 million and letter of credit commitments of \$2.7 million outstanding as of January 3, 2010 and revolving credit borrowings of \$59.7 million and letter of credit commitments of \$4.6 million outstanding as of September 27, 2009.

*Financing Agreement.* As of October 3, 2010, we had a financing agreement with The CIT Group/Business Credit, Inc. ( "CIT" ) and a syndicate of other lenders, as amended (the "Prior Financing Agreement" ), which was terminated and replaced on October 18, 2010 as discussed below), which originally provided for a line of credit up to \$175.0 million that was permanently reduced to \$140.0 million in the second quarter of fiscal 2010. The initial termination date of the Prior Financing Agreement was March 20, 2011. The Prior Financing Agreement provided for interest at various rates based on our overall borrowings, with a floor of the LIBO rate plus 1.00% or the JP Morgan Chase Bank prime lending rate and a ceiling of the LIBO rate plus 1.50% or the JP Morgan Chase Bank prime lending rate. An annual fee of 0.325%, payable monthly, was assessed on the unused portion of the revolving credit facility. As of October 3, 2010 and January 3, 2010, our total remaining borrowing availability under the revolving credit facility, after subtracting letters of credit, was \$84.0 million and \$94.3 million, respectively.

On October 18, 2010, we entered into a new credit agreement (the "New Credit Agreement" ) with Wells Fargo Bank, National Association ( "Wells Fargo" ), as administrative agent, and a syndicate of other lenders.

We borrowed \$67.4 million under the New Credit Agreement on October 18, 2010 and used the proceeds from such borrowing to, among other things, repay all of our



**Table of Contents**

outstanding indebtedness under the Prior Financing Agreement with CIT, at which time the Prior Financing Agreement was terminated.

The New Credit Agreement provides for a revolving credit facility (the Credit Facility ) with an aggregate committed availability of up to \$140.0 million, which amount may be increased at our option up to a maximum of \$165.0 million. We may also request additional increases in aggregate availability, up to a maximum of \$200.0 million, in which case the existing lenders under the New Credit Agreement will have the option to increase their commitments to accommodate the requested increase. If such existing lenders do not exercise that option, we may (with the consent of Wells Fargo, not to be unreasonably withheld) seek other lenders willing to provide such commitments. The Credit Facility includes a \$50.0 million sublimit for issuances of letters of credit and a \$20.0 million sublimit for swingline loans.

We may borrow under the Credit Facility from time to time, provided the amounts outstanding will not exceed the lesser of the then aggregate availability (as described above) and the Borrowing Base (such lesser amount being referred to as the Loan Cap ). The Borrowing Base generally is comprised of the sum, at the time of calculation of (a) 90.00% of our eligible credit card accounts receivable; plus (b)(i) during the period of September 15 through December 15 of each year, the cost of our eligible inventory, net of inventory reserves, multiplied by 90.00% of the appraised net orderly liquidation value of eligible inventory (expressed as a percentage of the cost of eligible inventory); and (ii) at all other times, the cost of our eligible inventory, net of inventory reserves, multiplied by 85.00% of the appraised net orderly liquidation value of eligible inventory (expressed as a percentage of the cost of eligible inventory); plus (c) the lesser of (i) the cost of our eligible in-transit inventory, net of inventory reserves, multiplied by 85.00% of the appraised net orderly liquidation value of our eligible in-transit inventory (expressed as a percentage of the cost of eligible in-transit inventory), or (ii) \$10.0 million, minus (d) certain reserves established by Wells Fargo in its role as the Administrative Agent in its reasonable discretion.

Generally, we may designate specific borrowings under the Credit Facility as either base rate loans or LIBO rate loans. In each case, the applicable interest rate will be a function of the daily average, over the preceding fiscal quarter, of the excess of the Loan Cap over amounts outstanding under the Credit Facility (such amount being referred to as the Average Daily Excess Availability ).

Those loans designated as LIBO rate loans shall bear interest at a rate equal to the then applicable LIBO rate plus an applicable margin as shown in the table below. Those loans designated as base rate loans shall bear interest at a rate equal to the applicable margin for base rate loans (as shown below) plus the highest of (a) the Federal funds rate, as in effect from time to time, plus one-half of one percent (0.50%), (b) the LIBO rate, as adjusted to account for statutory reserves, plus one percent (1.00%), or (c) the rate of interest in effect for such day as publicly announced from time to time by Wells Fargo as its prime rate .

**Table of Contents**

The applicable margin shall be as set forth for Level II in the table below from October 18, 2010 through January 2, 2011. Thereafter, the applicable margin for all loans will be as set forth below as a function of Average Daily Excess Availability for the preceding fiscal quarter.

<b>Level</b>	<b>Average Daily Excess Availability</b>	<b>LIBO Rate Applicable Margin</b>	<b>Base Rate Applicable Margin</b>
I	Greater than 50% of the Loan Cap	2.00%	1.00%
II	Less than or equal to 50% of the Loan Cap	2.25%	1.25%

If any amount payable under the Credit Facility is not paid when due (without regard to any applicable grace periods), whether at stated maturity, by acceleration or otherwise, such amount shall thereafter generally bear interest at a default rate equal to the interest rate otherwise applicable plus 2.00% per annum. So long as any other event of default exists, the lenders have the right to raise the applicable interest rate on all outstanding amounts to the above described default rate.

An annual commitment fee of 0.375% per annum, payable quarterly in arrears, is assessed on the unused portion of the Credit Facility, if Average Daily Excess Availability for the preceding fiscal quarter is less than or equal to 50.00% of the commitments under the Credit Facility. An annual commitment fee of 0.50% per annum, payable quarterly in arrears, is assessed on the unused portion of the Credit Facility, if the Average Daily Excess Availability for the preceding fiscal quarter is greater than 50.00% of the commitments under the Credit Facility.

All amounts outstanding under the Credit Facility will mature and become due on October 18, 2014. We may prepay any amounts outstanding at any time, subject to payment of certain breakage and redeployment costs relating to LIBO rate loans. The commitments under the Credit Facility may be irrevocably reduced or terminated by us at any time without premium or penalty.

If at any time the aggregate amount of the loans outstanding under the Credit Facility, together with letters of credit, exceeds the Loan Cap as of that date, then we must immediately repay loans and, if necessary thereafter, cash collateralize letters of credit in an aggregate amount equal to such excess.

Our New Credit Agreement contains covenants that limit our ability to, among other things: incur liens, incur additional indebtedness, transfer or dispose of assets, change the nature of the business, guarantee obligations, pay dividends or make other distributions or repurchase stock, and make advances, loans or investments.

**Table of Contents**

In addition, if at any time the excess of the Loan Cap over amounts outstanding under the Credit Facility (the Excess Availability ) falls below 12.50% of the Loan Cap, we must maintain a minimum consolidated fixed charge coverage ratio (as defined in the New Credit Agreement), calculated monthly on a trailing twelve months basis, of not less than 1.0:1.0, until such time as Excess Availability has equaled or exceeded 12.50% of the Loan Cap at all times for 60 consecutive calendar days.

We may declare or pay cash dividends or repurchase stock only if (i) no default or event of default then exists or would arise from such dividend or repurchase of stock, (ii) after giving effect to such payment, Adjusted Excess Availability (an amount equal to the Borrowing Base minus the outstanding amount of Loans and Letters of Credit) on a pro forma basis is projected to be equal to or greater than \$30.0 million for the immediately following 90 days, (iii) after giving effect to such payment, Excess Availability on a pro forma basis is projected to be equal to or greater than \$10.0 million for the immediately following 90 days, and (iv) after giving effect to such payment, the consolidated fixed charge coverage ratio on a pro forma basis for the immediately preceding 12 fiscal months is greater than 1.0:1.0.

The New Credit Agreement contains customary events of default, including, without limitation, failure to pay when due principal amounts with respect to the Credit Facility, failure to pay any interest or other amounts under the Credit Facility for five days after becoming due, failure to comply with certain agreements or covenants contained in the New Credit Agreement, failure to satisfy certain judgments against us, failure to pay when due (or any other default which does or may lead to the acceleration of) certain other material indebtedness in principal amount in excess of \$5.0 million, and certain insolvency and bankruptcy events.

Obligations under the Credit Facility are secured by a general lien and security interest in substantially all of our assets, including accounts receivable, documents, equipment, general intangibles and inventory.

The New Credit Agreement and certain related documents are filed as Exhibits 10.1, 10.2 and 10.3 to this Quarterly Report on Form 10-Q.

*Future Capital Requirements.* We had cash on hand of \$4.1 million at October 3, 2010. We expect capital expenditures for the last quarter of fiscal 2010, excluding non-cash property and equipment acquisitions, to range from approximately \$6.0 million to \$7.0 million, primarily to fund the opening of new stores, store-related remodeling, distribution center equipment and computer hardware and software purchases. As a result of the economic recession, we slowed our store expansion efforts substantially in fiscal 2009 by opening only three net new stores. We anticipate opening 14 net new stores in fiscal 2010.

During fiscal 2009 and for the first three quarters of fiscal 2010, we paid quarterly cash dividends of \$0.05 per share of outstanding common stock. In the fourth quarter of fiscal 2010, our Board of Directors declared a quarterly cash dividend of \$0.05 per share of outstanding common stock, which will be paid on December 15, 2010 to stockholders of record as of December 1, 2010.

**Table of Contents**

As of October 3, 2010, a total of \$14.2 million remained available for share repurchases under our share repurchase program. We did not make any share repurchases in fiscal 2009 or the first three quarters of fiscal 2010 due to the economic recession and expect limited, if any, share repurchases in fiscal 2010.

We believe we will be able to fund our cash requirements from cash on hand, operating cash flows and borrowings from our Credit Facility for at least the next 12 months. However, our ability to satisfy such cash requirements depends upon our future performance, which in turn is subject to general economic conditions and regional risks, and to financial, business and other factors affecting our operations, including factors beyond our control. There is no assurance that we will be able to generate sufficient cash flows from operations or maintain our ability to borrow under our Credit Facility.

If we are unable to generate sufficient cash flows from operations to meet our obligations and commitments, or if we are unable to maintain our ability to borrow sufficient amounts under our Credit Facility, we will be required to refinance or restructure our indebtedness or raise additional debt or equity capital. Additionally, we may be required to sell material assets or operations, suspend or further reduce dividend payments or delay or forego expansion opportunities. We might not be able to implement successful alternative strategies on satisfactory terms, if at all.

*Off-Balance Sheet Arrangements and Contractual Obligations.* Our material off-balance sheet arrangements are operating lease obligations and letters of credit. We excluded these items from the balance sheet in accordance with generally accepted accounting principles in the United States of America ( GAAP ).

Operating lease commitments consist principally of leases for our retail store facilities, distribution center and corporate office. Our facility leases frequently include options which permit us to extend the terms beyond the initial fixed lease term. With respect to most of those leases, we intend to renegotiate those leases as they expire.

Issued and outstanding letters of credit were \$0.8 million at October 3, 2010, and were related primarily to importing merchandise and funding insurance program liabilities.

Our material contractual obligations include capital lease obligations, revolving credit borrowings, certain occupancy costs related to our leased properties and other liabilities. Capital lease obligations consist principally of leases for some of our distribution center delivery tractors, management information systems hardware and point-of-sale equipment for our stores. Our revolving credit borrowings fluctuate daily depending on operating, investing and financing cash flows. Occupancy costs include estimated property maintenance fees and property taxes for our stores, distribution center and corporate headquarters. Other liabilities consist principally of actuarially-determined reserve estimates related to self-insurance liabilities, a contractual obligation for the surviving spouse of Robert W. Miller, our co-founder, and asset retirement obligations related to the removal of leasehold improvements for certain stores upon termination of their leases.

Included in the *Liquidity and Capital Resources* section of Part II, Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, of

**Table of Contents**

our Annual Report on Form 10-K/A for the fiscal year ended January 3, 2010, is a discussion of our future obligations and commitments as of January 3, 2010. In the 39 weeks ended October 3, 2010, our revolving credit borrowings remained relatively unchanged from the end of fiscal 2009. As described in the *Financing Agreement* section of *Liquidity and Capital Resources* above, on October 18, 2010 we replaced our Prior Financing Agreement which was scheduled to mature on March 11, 2011 with the New Credit Agreement which matures on October 18, 2014. Our annual interest payments would not materially change as originally presented due to the replacement of our financing agreement. We entered into new operating lease agreements in relation to our business operations during the 39 weeks ended October 3, 2010, but do not believe that these operating leases would materially change our contractual obligations or commitments presented as of January 3, 2010.

In the ordinary course of business, we enter into arrangements with vendors to purchase merchandise in advance of expected delivery. Because most of these purchase orders do not contain any termination payments or other penalties if cancelled, they are not included as outstanding contractual obligations.

**Critical Accounting Estimates**

As discussed in Part II, Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, of our Annual Report on Form 10-K/A for the fiscal year ended January 3, 2010, we consider our estimates on inventory valuation, impairment of long-lived assets and self-insurance reserves to be the most critical in understanding the judgments that are involved in preparing our consolidated financial statements. There have been no significant changes to these estimates in the 39 weeks ended October 3, 2010.

**Seasonality and Impact of Inflation**

We experience seasonal fluctuations in our net sales and operating results and typically generate higher net sales in the fourth fiscal quarter, which includes the holiday selling season. Accordingly, in the fourth fiscal quarter we experience normally higher purchase volumes and increased expense for staffing and advertising. Seasonality influences our buying patterns which directly impacts our merchandise and accounts payable levels and cash flows. We purchase merchandise for seasonal activities in advance of a season. If we miscalculate the demand for our products generally or for our product mix during the fourth fiscal quarter, our net sales can decline, resulting in excess inventory, which can harm our financial performance. A shortfall from expected fourth fiscal quarter net sales can negatively impact our annual operating results.

In the first half of fiscal 2009, we experienced increasing inflation in the purchase cost of certain products, while during the last half of fiscal 2009 the trend of inflation in product purchase costs generally appeared to stabilize. In the first half of fiscal 2010, the impact of inflation was minimal, although there appears to be increasing inflationary cost pressure in the second half of this year. If we are unable to adjust our merchandise selling prices to cover purchase cost increases then our merchandise margins will decline, which could adversely impact our operating results.

**Table of Contents**

**Recently Issued Accounting Updates**

See Note 2 to Interim Financial Statements included in Part I, Item 1, *Financial Statements*, of this Quarterly Report on Form 10-Q.

**Forward-Looking Statements**

This document includes certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements relate to, among other things, our financial condition, our results of operations, our growth strategy and the business of our company generally. In some cases, you can identify such statements by terminology such as may, could, project, estimate, potential, continue, should, e anticipates, believes, intends or other such terminology. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results in future periods to differ materially from forecasted results. These risks and uncertainties include, among other things, continued or worsening weakness in the consumer spending environment and the U.S. financial and credit markets, the competitive environment in the sporting goods industry in general and in our specific market areas, inflation, product availability and growth opportunities, seasonal fluctuations, weather conditions, changes in cost of goods, operating expense fluctuations, disruption in product flow, changes in interest rates, credit availability, higher costs associated with sources of credit resulting from uncertainty in financial markets and economic conditions in general. Those and other risks and uncertainties are more fully described in Part II, Item 1A, *Risk Factors*, in this report and in Part I, Item 1A, *Risk Factors*, in our Annual Report on Form 10-K/A and other filings with the Securities and Exchange Commission. We caution that the risk factors set forth in this report are not exclusive. In addition, we conduct our business in a highly competitive and rapidly changing environment. Accordingly, new risk factors may arise. It is not possible for management to predict all such risk factors, nor to assess the impact of all such risk factors on our business or the extent to which any individual risk factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement. We undertake no obligation to revise or update any forward-looking statement that may be made from time to time by us or on our behalf.

-31-

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**Table of Contents**

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We are subject to risks resulting from interest rate fluctuations since interest on our borrowings under our Credit Facility is based on variable rates. We enter into borrowings under our Credit Facility principally for working capital, capital expenditures and general corporate purposes. We routinely evaluate the best use of our cash and manage financial statement exposure to interest rate fluctuations by managing our level of indebtedness and the interest base rate options on such indebtedness. We do not utilize derivative instruments and do not engage in foreign currency transactions or hedging activities to manage our interest rate risk. If the interest rate on our debt was to change 1.0% as compared to the rate at October 3, 2010, our interest expense would change approximately \$0.6 million on an annual basis based on the outstanding balance of our borrowings under our Credit Facility at October 3, 2010.

**Item 4. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

We conducted an evaluation, under the supervision and with the participation of our Chief Executive Officer ( CEO ) and Chief Financial Officer ( CFO ), of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act )) as of the end of the period covered by this report. Based on such evaluation, our CEO and CFO have concluded that, as of the end of such period, our disclosure controls and procedures are effective, at a reasonable assurance level, in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports that we file or submit under the Exchange Act and are effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

**Changes in Internal Control Over Financial Reporting**

During the fiscal quarter ended October 3, 2010, no changes occurred with respect to our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

**Table of Contents****PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

On August 6, 2009, the Company was served with a complaint filed in the California Superior Court for the County of San Diego, entitled *Shane Weyl v. Big 5 Corp., et al.*, Case No. 37-2009-00093109-CU-OE-CTL, alleging violations of the California Labor Code and the California Business and Professions Code. The complaint was brought as a purported class action on behalf of the Company's hourly employees in California for the four years prior to the filing of the complaint. The plaintiff alleges, among other things, that the Company failed to provide hourly employees with meal and rest periods and failed to pay wages within required time periods during employment and upon termination of employment. The plaintiff seeks, on behalf of the class members, an award of one hour of pay (wages) for each workday that a meal or rest period was not provided; restitution of unpaid wages; actual, consequential and incidental losses and damages; pre-judgment interest; statutory penalties including an additional thirty days' wages for each hourly employee in California whose employment terminated in the four years preceding the filing of the complaint; civil penalties; an award of attorneys' fees and costs; and injunctive and declaratory relief. On December 14, 2009, the parties engaged in mediation and agreed to settle the lawsuit. On February 4, 2010, the parties filed a joint settlement and a motion to preliminarily approve the settlement with the court. On July 16, 2010, the court granted preliminary approval of the settlement and scheduled a hearing for December 10, 2010, to consider final approval of the settlement. Under the terms of the settlement, the Company agreed to pay up to a maximum amount of \$2.0 million, which includes payments to class members who submit valid and timely claim forms, plaintiff's attorneys' fees and expenses, an enhancement payment to the class representative, claims administrator fees and payment to the California Labor and Workforce Development Agency. Under the settlement, in the event that fewer than all class members submit valid and timely claims, the total amount required to be paid by the Company will be reduced, subject to a minimum payment amount calculated in the manner provided in the settlement agreement. The Company's anticipated total payments pursuant to this settlement have been reflected in a legal settlement accrual recorded in the fourth quarter of fiscal 2009. The Company admitted no liability or wrongdoing with respect to the claims set forth in the lawsuit. Once final approval is granted, the settlement will constitute a full and complete settlement and release of all claims related to the lawsuit. If the court does not grant final approval of the settlement, the Company intends to defend the lawsuit vigorously. If the settlement is not finally approved by the court and the lawsuit is resolved unfavorably to the Company, this litigation, the costs of defending it and any required change in the Company's labor practices could have a material negative impact on the Company's results of operations and financial condition.

On August 13, 2009, the Company was served with a complaint filed in the California Superior Court for the County of San Diego, entitled *Michael Kelly v. Big 5 Sporting Goods Corporation, et al.*, Case No. 37-2009-00095594-CU-MC-CTL, alleging violations of the California Business and Professions Code and California Civil Code. The complaint was brought as a purported class action on behalf of persons who purchased certain tennis, racquetball and squash racquets from the Company. The plaintiff alleges, among other things, that the Company employed deceptive pricing, marketing and advertising practices



**Table of Contents**

with respect to the sale of such rackets. The plaintiff seeks, on behalf of the class members, unspecified amounts of damages and/or restitution; attorneys' fees and costs; and injunctive relief to require the Company to discontinue the allegedly improper conduct. On July 20, 2010, the plaintiff filed with the court a Motion for Class Certification. On September 1, 2010, the plaintiff and the Company engaged in mediation in an effort to negotiate a settlement agreement, but the mediation adjourned without a settlement. Any settlement agreement would be subject to court approval. On September 24, 2010, the Company filed with the court an Opposition to Plaintiff's Motion for Class Certification. Currently the court is scheduled to conduct a hearing regarding plaintiff's Motion for Class Certification on November 30, 2010, and a trial on the merits of plaintiff's claims on February 18, 2011. If the plaintiff and the Company are unable to negotiate a settlement agreement, the Company intends to defend the lawsuit vigorously. Because this dispute remains in the preliminary stages and, among other things, discovery is still ongoing, the Company is not able to evaluate the likelihood of a settlement or an unfavorable outcome in this case or to estimate a range of potential loss in the event of a settlement or an unfavorable outcome in this case at the present time. If settled or resolved unfavorably to the Company, this litigation, the costs of defending it and any resulting required change in the business practices of the Company could have a material negative impact on the Company's results of operations and financial condition.

The Company is involved in various other claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters is not expected to have a material negative impact on the Company's financial position, results of operations or liquidity.

**Item 1A. Risk Factors**

There have been no material changes to the risk factors identified in Part I, Item 1A, *Risk Factors*, of the Company's Annual Report on Form 10-K/A for the fiscal year ended January 3, 2010.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. (Removed and Reserved)**

**Item 5. Other Information**

None.

**Table of Contents**

**Item 6. Exhibits**

(a) Exhibits

<b>Exhibit Number</b>	<b>Description of Document</b>
10.1	Credit Agreement, dated as of October 18, 2010, among Big 5 Corp., Big 5 Services Corp. and Big 5 Sporting Goods Corporation, Wells Fargo Bank, National Association, as Administrative Agent and Collateral Agent and Swingline Lender, the Lenders named therein, and Bank of America, N.A. as Documentation Agent.
10.2	Security Agreement, dated as of October 18, 2010, among Big 5 Corp., Big 5 Services Corp. and Big 5 Sporting Goods Corporation and Wells Fargo Bank, National Association, as Collateral Agent.
10.3	Guaranty, dated as of October 18, 2010, by Big 5 Sporting Goods Corporation in favor of Wells Fargo Bank, National Association, as Administrative Agent and Collateral Agent for the Lenders described therein.
15.1	Independent Auditors Awareness Letter Regarding Interim Financial Statements.
31.1	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certification of Chief Executive Officer.
32.2	Section 1350 Certification of Chief Financial Officer.

**Table of Contents**

**SIGNATURES**

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

**BIG 5 SPORTING GOODS  
CORPORATION,**  
a Delaware corporation

Date: November 3, 2010

By: /s/ Steven G. Miller  
Steven G. Miller  
*Chairman of the Board of Directors,  
President and Chief Executive Officer*

Date: November 3, 2010

By: /s/ Barry D. Emerson  
Barry D. Emerson  
*Senior Vice President,  
Chief Financial Officer and Treasurer  
(Principal Financial and  
Accounting Officer)*

-36-