BIG 5 SPORTING GOODS CORP
Form 10-K/A
March 03, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-K/A
Amendment No. 1

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended January 3, 2010

or

o **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

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

Title of Each Class:	**Name of Each Exchange on which Registered:**
Common Stock, par value $0.01 per share	**The NASDAQ Stock Market LLC**

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 o No o

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

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. (Check one):

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant was $108,409,216 as of June 28, 2009 (the last business day of the registrant s most recently completed second fiscal quarter) based upon the closing price of the registrant s common stock on the NASDAQ Stock Market LLC reported for June 28, 2009. Shares of common stock held by each executive officer and director and by each person who, as of such date, may be deemed to have beneficially owned more than 5% of the outstanding voting stock have been excluded in that such persons may be deemed to be affiliates of the registrant under certain circumstances. This determination of affiliate status is not necessarily a conclusive determination of affiliate status for any other purpose.

The registrant had 21,567,266 shares of common stock outstanding at February 26, 2010.

Documents Incorporated by Reference

Part III of this Form 10-K incorporates by reference certain information from the registrant s 2010 definitive proxy statement (the Proxy Statement) to be filed with the Securities and Exchange Commission no later than 120 days after the end of the registrant s fiscal year.

Explanatory Note

This Amendment No. 1 to the Annual Report on Form 10-K of Big 5 Sporting Goods Corporation for the fiscal year ended January 3, 2010, which was originally filed with the Securities and Exchange Commission on March 2, 2010 (the Original Filing), is being made solely to conform the filing date of this amended document with certain report dates and signature dates that were inconsistent with the date of the Original Filing, including on the signature pages, the Report of Independent Registered Public Accounting Firm incorporated by reference into Item 8 (from page F-2), the Report of Independent Registered Public Accounting Firm included in Item 9A, and the signatures set forth in Exhibits 23.1, 31.1, 31.2, 32.1 and 32.2. The Original Filing was inadvertently filed one day earlier than anticipated by our outside filing service.

Other than the filing date and this Explanatory Note, no information in the Original Filing has been supplemented, updated or amended.

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 , expect 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 current and new 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 I, Item 1A, *Risk Factors*, in this report. 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.

PART I

ITEM 1. BUSINESS

General

Big 5 Sporting Goods Corporation (we , our , us or the Company) is a leading sporting goods retailer in the western United States, operating 384 stores in 11 states under the Big 5 Sporting Goods name at January 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.

We believe that over our 55-year history we have developed a reputation with the competitive and recreational sporting goods customer as a convenient neighborhood sporting goods retailer that consistently delivers value on quality merchandise. Our stores carry a wide range of products at competitive prices from well-known brand name manufacturers, including adidas, Coleman, Easton, New Balance, Nike, Reebok, Spalding, Under Armour and Wilson. We also offer brand name merchandise produced exclusively for us, private label merchandise and specials on quality items we purchase through opportunistic buys of vendor over-stock and close-out merchandise. We reinforce our value reputation through weekly print advertising in major and local newspapers and mailers designed to generate customer traffic, drive net sales and build brand awareness.

Robert W. Miller co-founded our company in 1955 with the establishment of five retail locations in California. We sold World War II surplus items until 1963, when we began focusing exclusively on sporting goods and changed our trade name to Big 5 Sporting Goods . In 1971, we were acquired by Thrifty Corporation, which was subsequently purchased by Pacific Enterprises. In 1992, management bought our company in conjunction with Green Equity Investors, L.P., an affiliate of Leonard Green & Partners, L.P. In 1997, Robert W. Miller, Steven G. Miller and Green Equity Investors, L.P. recapitalized our company so that the majority of our common stock would be owned by our management and employees.

In 2002, we completed an initial public offering of our common stock and used the proceeds from that offering, together with credit facility borrowings, to repurchase outstanding high-yield debt and preferred stock, fund management bonuses and repurchase common stock from non-executive employees.

Our accumulated management experience and expertise in sporting goods merchandising, advertising, operations and store development have enabled us to historically generate profitable growth. We believe our historical success can be attributed to one of the most experienced management teams in the sporting goods industry, a value-based and execution-driven operating philosophy, a controlled growth strategy and a proven business model. Additional information regarding our management experience is available in Item 1, *Business*, under the sub-heading Management Experience , of this Annual Report on Form 10-K. In fiscal 2009, we generated net sales of $895.5 million, operating income of $37.7 million, net income of $21.8 million and diluted earnings per share of $1.01.

We are a holding company incorporated in Delaware on October 31, 1997. We conduct our business through Big 5 Corp., a wholly owned subsidiary incorporated in Delaware on October 27, 1997. We conduct our gift card operations through Big 5 Services Corp., a wholly owned subsidiary of Big 5 Corp. incorporated in Virginia on December 19, 2003.

Our corporate headquarters are located at 2525 East El Segundo Boulevard, El Segundo, California 90245. Our Internet address is www.big5sportinggoods.com. Our Annual Report on Form 10-K, our Quarterly Reports on

Form 10-Q, our Current Reports on Form 8-K and amendments, if any, to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934, as amended, are available on our website, free of charge, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (SEC).

Expansion and Store Development

Throughout our operating history, we have sought to expand our business with the addition of new stores through a disciplined strategy of controlled growth. Our expansion within the western United States has been systematic and designed to capitalize on our name recognition, economical store format and economies of scale related to distribution and advertising. Over the past five fiscal years, we have opened 82 stores, an average of approximately 16 new stores annually, of which 66% were outside of California. Uncertainty resulting from the economic recession slowed our store expansion efforts in fiscal 2009. The following table illustrates the results of our expansion program during the periods indicated:

Year	California	Other Markets	Total	Stores Relocated[(1)]	Stores Closed	Number of Stores at Period End
2005	7	11	18	(2)	(1)	324
2006	7	12	19	–	–	343
2007	6	17	23	(3)	–	363
2008	7	12	19	(1)	–	381
2009	1	2	3	–	–	384

(1) All stores relocated in the table above were in California.

Our store format enables us to have substantial flexibility regarding new store locations. We have successfully operated stores in major metropolitan areas and in areas with as few as 50,000 people. Our 11,000 average square foot store format differentiates us from superstores that typically average over 35,000 square feet, require larger target markets, are more expensive to operate and require higher net sales per store for profitability.

New store openings represent attractive investment opportunities due to the relatively low investment required and the relatively short time necessary before our stores typically become profitable. Our store format typically requires investments of approximately $0.5 million in fixtures, equipment and leasehold improvements, and approximately $0.4 million in net working capital with limited pre-opening and real estate expense related to leased locations that are built to our specifications. We seek to maximize new store performance by staffing new store management with experienced personnel from our existing stores.

Our in-house store development personnel analyze new store locations with the assistance of real estate firms that specialize in retail properties. We have identified numerous expansion opportunities to further penetrate our established markets, develop recently entered markets and expand into new, contiguous markets with attractive demographic, competitive and economic profiles.

Management Experience

We believe the experience, commitment and tenure of our professional staff drive our strong execution and historical operating performance and give us a substantial competitive advantage. The table below indicates the tenure of our professional staff in some of our key functional areas as of January 3, 2010:

Average

	Number of Employees	Number of Years With Us
Senior Management	7	28
Vice Presidents	10	21
Buyers	16	22
Store District/Regional Supervisors	42	21
Store Managers	384	10

Merchandising

We target the competitive and recreational sporting goods customer with a full-line product offering at a wide variety of price points. We offer a product mix that 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. We believe we offer consistent value to consumers by offering a distinctive merchandise mix that includes a combination of well-known brand name merchandise, merchandise produced exclusively for us under a manufacturer s brand name, private label merchandise and specials on quality items we purchase through opportunistic buys of vendor over-stock and close-out merchandise.

We believe we enjoy significant advantages in making opportunistic buys of vendor over-stock and close-out merchandise because of our strong vendor relationships, purchasing volume and rapid decision-making process. Vendor over-stock and close-out merchandise typically represent approximately 10% of our net sales. Our strong vendor relationships and purchasing volume also enable us to purchase merchandise produced exclusively for us under a manufacturer s brand name which allows us to differentiate our product selection from competition, obtain volume pricing discounts from vendors and offer unique value to our customers. Our weekly advertising highlights our opportunistic buys together with merchandise produced exclusively for us in order to reinforce our reputation as a retailer that offers attractive values to our customers.

The following table illustrates our mix of soft goods, which are non-durable items such as shirts and shoes, and hard goods, which are durable items such as fishing rods and golf clubs, as a percentage of net sales:

	Fiscal Year				
	2009	**2008**	**2007**	**2006**	**2005**
Soft goods					
Athletic and sport apparel	16.3%	17.3%	16.8%	17.1%	16.1%
Athletic and sport footwear	29.1	29.2	29.8	29.9	30.4
Total soft goods	45.4	46.5	46.6	47.0	46.5
Hard goods	54.6	53.5	53.4	53.0	53.5
Total	100.0%	100.0%	100.0%	100.0%	100.0%

We purchase our popular branded merchandise from an extensive list of major sporting goods equipment, athletic footwear and apparel manufacturers. Below is a selection of some of the brands we carry:

adidas	Everlast	Impex	Rawlings	Spalding
Asics	Fila	JanSport	Razor	Speedo
Browning	Footjoy	K2	Reebok	Timex
Bushnell	Franklin	Lifetime	Remington	Titleist
Coleman	Head	Mizuno	Rollerblade	Under Armour
Converse	Heelys	New Balance	Russell Athletic	Wilson
Crosman	Hillerich & Bradsby	Nike	Saucony	Zebco
Easton	Icon (Proform)	Prince	Shimano	

We also offer a variety of private label merchandise to complement our branded product offerings, which represents approximately 3% of our net sales. Our sale of private label merchandise enables us to provide our customers with a broader selection of quality merchandise at a wider range of price points and allows us the opportunity to achieve higher margins than on sales of comparable name brand products. Our private label items include shoes, apparel, golf equipment, binoculars, camping equipment, fishing supplies and snowsport equipment. Private label merchandise is

sold under trademarks owned by us or licensed by us from third parties. Our owned trademarks include Court Casuals, Golden Bear, Harsh, Pacifica, Rugged Exposure and Triple Nickel, all of which are registered as federal trademarks. The renewal dates for these trademark registrations range from 2013 to 2019. Our licensed trademarks include Avet, Body Glove, Hi-Tec, Maui & Sons, Realm and The Realm. The expiration dates for these license agreements range from 2010 to 2012. We intend to renew these trademark registrations and license agreements if we are still using the trademarks in commerce and they continue to provide value to us at the time of renewal.

Through our 55 years of experience across different demographic, economic and competitive markets, we have refined our merchandising strategy to increase net sales by offering a selection of products that meets customer demands while effectively managing inventory levels. In terms of category selection, we believe our merchandise

offering compares favorably to our competitors, including the superstores. Our edited selection of products enables customers to comparison shop without being overwhelmed by a large number of different products in any one category. We further tailor our merchandise selection on a store-by-store basis in order to satisfy each region s specific needs and seasonal buying habits.

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.

Our buyers, who average 22 years of experience with us, work closely with senior management to determine and enhance product selection, promotion and pricing of our merchandise mix. Management utilizes integrated merchandising, distribution, point-of-sale and financial information systems to continuously refine our merchandise mix, pricing strategy, advertising effectiveness and inventory levels to best serve the needs of our customers.

Advertising

Through years of targeted advertising, we have solidified our reputation for offering quality products at attractive prices. We have advertised almost exclusively through weekly print advertisements since 1955. We typically utilize four-page color advertisements to highlight promotions across our merchandise categories. We believe our print advertising, which includes an average weekly distribution of over 18 million newspaper inserts or mailers, consistently reaches more households in our established markets than that of our full-line sporting goods competitors. The consistency and reach of our print advertising programs drive sales and create high customer awareness of the name Big 5 Sporting Goods.

We use our own professional in-house advertising staff to generate our advertisements, including design, layout, production and media management. Our in-house advertising department provides management with the flexibility to react quickly to merchandise trends and to maximize the effectiveness of our weekly inserts and mailers. We are able to effectively target different population zones for our advertising expenditures. We place inserts in approximately 200 newspapers throughout our markets, supplemented in many areas by mailer distributions to create market saturation.

We offer an email marketing program that enables our customers, upon subscribing on our website, to download discount coupons, sign up to receive our weekly advertisements through email and enjoy other promotional offers.

Vendor Relationships

We have developed strong vendor relationships over the past 55 years. We currently purchase merchandise from over 700 vendors. In fiscal 2009, only one vendor represented greater than 5% of total purchases, at 6.0%. We believe current relationships with our vendors are good. We benefit from the long-term working relationships with vendors that our senior management and our buyers have carefully nurtured throughout our history.

Management Information Systems

We have fully integrated management information systems that report aggregated sales information throughout the day, support merchandise management, inventory receiving and distribution functions and provide pertinent information for financial reporting. The management information systems also include networks that connect all system users to the main host system, electronic mail and other related enterprise applications. The main host system and our stores point-of-sale registers are linked by a network that provides satellite communications for purchasing card (i.e., credit and debit card) authorization and processing, as well as daily polling of sales and merchandise movement at the store level. This wide area network also provides stable communications for the

stores to access valuable tools for collaboration, workforce management and corporate communications. We believe our management information systems are effectively supporting our current operations and provide a foundation for future growth.

Distribution

We operate a distribution center located in Riverside, California, that services all of our stores. The facility has approximately 953,000 square feet of storage and office space. The distribution center warehouse management system is fully integrated with our management information systems and provides improved warehousing and distribution capabilities. We distribute merchandise from our distribution center to our stores at least once per week, using our fleet of leased tractors, as well as contract carriers. Our lease for the distribution center, which was entered into on April 14, 2004, has an initial term of 10 years and includes three additional five-year renewal options.

Industry and Competition

The retail market for sporting goods is highly competitive. In general, competition tends to fall into the following five basic categories:

Sporting Goods Superstores. Stores in this category typically are larger than 35,000 square feet and tend to be free-standing locations. These stores emphasize high volume sales and a large number of stock-keeping units. Examples include Academy Sports & Outdoors, Dick s Sporting Goods, The Sports Authority and Sport Chalet.

Traditional Sporting Goods Stores. This category consists of traditional sporting goods chains, including us. These stores range in size from 5,000 to 20,000 square feet and are frequently located in regional malls and multi-store shopping centers. The traditional chains typically carry a varied assortment of merchandise and attempt to position themselves as convenient neighborhood stores. Sporting goods retailers operating stores within this category include Hibbett Sports and Modell s.

Specialty Sporting Goods Stores. Specialty sporting goods retailers are stores that typically carry a wide assortment of one specific product category, such as athletic shoes, golf, or outdoor equipment. Examples of these retailers include Bass Pro Shops, Cabela s, Foot Locker, Gander Mountain, Golfsmith and REI. This category also includes pro shops that often are single-store operations.

Mass Merchandisers. This category includes discount retailers such as Kmart, Target and Wal-Mart and department stores such as JC Penney, Kohl s and Sears. These stores range in size from 50,000 to 200,000 square feet and are primarily located in regional malls, shopping centers or on free-standing sites. Sporting goods merchandise and apparel represent a small portion of the total merchandise in these stores and the selection is often more limited than in other sporting goods retailers.

Catalog and Internet-based Retailers. This category consists of numerous retailers that sell a broad array of new and used sporting goods products via catalogs or the Internet.

We believe we compete successfully with each of the competitors discussed above by focusing on what we believe are the primary factors of competition in the sporting goods retail industry. These factors include experienced and knowledgeable personnel; customer service; breadth, depth, price and quality of merchandise offered; advertising; purchasing and pricing policies; effective sales techniques; direct involvement of senior officers in monitoring store operations; management information systems and store location and format.

Employees

We manage our stores through regional, district and store-based personnel. Field supervision is led by six regional supervisors who report directly to the Vice President of Store Operations and who oversee 36 district supervisors. The district supervisors are each responsible for an average of 11 stores. Each of our stores has a store manager who is responsible for all aspects of store operations and who reports directly to a district supervisor. In addition, each store has at least two assistant managers and a complement of appropriate full and part-time associates to match the store s sales volume.

As of January 3, 2010, we had over 8,600 active full and part-time employees, reduced from over 8,900 employees as of December 28, 2008. This reduction in the number of employees during fiscal 2009 was due largely to a three percent reduction in the number of full-time employees, which we achieved through managed attrition, and our alignment of part-time store labor to sales levels. The Miscellaneous Warehousemen Drivers and Helpers, Local Union 986, affiliated with the International Brotherhood of Teamsters, represents approximately 450 hourly employees in our distribution center and select stores. The collective bargaining agreements covering both our distribution center and select store employees expire on August 31, 2012. We have not had a strike or work stoppage in over 28 years, although such a disruption could have a significant negative impact on our business operations and financial results. We believe we provide working conditions and wages that are comparable to those offered by other retailers in the sporting goods industry and that employee relations are good.

Employee Training

We have developed a comprehensive training program that is tailored for each store position. All employees are given an orientation and reference materials that stress excellence in customer service and selling skills. All full-time employees, including salespeople, cashiers and management trainees, receive additional training specific to their job responsibilities. Our tiered curriculum includes seminars, individual instruction and performance evaluations to promote consistency in employee development. The manager trainee schedule provides seminars on operational responsibilities such as merchandising strategy, loss prevention and inventory control. Moreover, each manager trainee must complete a progressive series of outlines and evaluations in order to advance to the next successive level. Ongoing store management training includes topics such as advanced merchandising, delegation, personnel management, scheduling, payroll control, harassment prevention and loss prevention. We also provide unique opportunities for our employees to gain knowledge about our products, through periodic hands-on training seminars.

Description of Service Marks and Trademarks

We use the Big 5 and Big 5 Sporting Goods names as service marks in connection with our business operations and have registered these names as federal service marks. The renewal dates for these service mark registrations are in 2015 and 2013, respectively. We have also registered the names Court Casuals, Golden Bear, Harsh, Pacifica, Rugged Exposure and Triple Nickel as federal trademarks under which we sell a variety of merchandise. The renewal dates for these trademark registrations range from 2013 to 2019. We intend to renew these service mark and trademark registrations if we are still using the marks in commerce and they continue to provide value to us at the time of renewal.

ITEM 1A. RISK FACTORS

An investment in the Company entails risks and uncertainties including the following. You should carefully consider these risk factors when evaluating any investment in the Company. Any of these risks and uncertainties could cause our actual results to differ materially from the results contemplated by the forward-looking statements set forth herein, and could otherwise have a significant adverse impact on our business, prospects, financial condition or results of operations or on the price of our common stock.

Risks Related to Our Business and Industry

Disruptions in the overall economy and the financial markets may adversely impact our business and results of operations, as well as our lenders.

The retail industry can be greatly affected by macroeconomic factors, including changes in national, regional and local economic conditions, as well as consumers perceptions of such economic factors. In general, sales represent

discretionary spending by our customers. Discretionary spending is affected by many factors, including, among others, general business conditions, interest rates, inflation, consumer debt levels, the availability of consumer credit, currency exchange rates, taxation, gasoline prices, income, unemployment trends and other matters that influence consumer confidence and spending. Many of these factors are outside of our control. We may also experience increased inflationary pressure on our product costs. Our customers purchases of discretionary

items, including our products, generally decline during periods when disposable income is lower, when prices increase in response to rising costs, or in periods of actual or perceived unfavorable economic conditions.

As discussed in this and prior reports, the consumer environment has been particularly challenging over the last few years. The economic recession and long-term weakness and instability in the financial markets have deteriorated the consumer spending environment and reduced consumer income, liquidity, credit and confidence in the economy, and have resulted in substantial reductions in consumer spending. Continued weakness or further deterioration of the consumer spending environment would be harmful to our financial position and results of operations, could adversely affect our ability to comply with covenants under our credit facility and, as a result, may negatively impact our ability to continue payment of our quarterly dividend, to repurchase our stock and to open additional stores in the manner that we have in the past. Government responses to the disruptions in the financial markets may not restore consumer confidence, stabilize such markets or increase liquidity and the availability of credit to consumers and businesses.

Worldwide capital and credit markets experienced nearly unprecedented volatility and disruption in fiscal 2008 and fiscal 2009, which has impacted the ability of several financial institutions to meet their obligations. As a consequence, the parent company of our principal lender, the CIT Group/Business Credit, Inc. (CIT), recently filed for Chapter 11 bankruptcy protection and has since emerged from those proceedings. Based on information available to us, all of the lenders under our financing agreement are currently able to fulfill their commitments thereunder. However, circumstances could arise that may impact their ability to fund their obligations in the future. Although we believe the commitments from our lenders under the credit facility, together with our cash on hand and anticipated operating cash flows, should be sufficient to meet our near-term borrowing requirements, if CIT, or any other lender, is for any reason unable to perform its lending or administrative commitments under the facility then disruptions to our business could result and may require us to replace this facility with a new facility or to raise capital from alternative sources on less favorable terms, including higher rates of interest.

Intense competition in the sporting goods industry could limit our growth and reduce our profitability.

The retail market for sporting goods is highly fragmented and intensely competitive. We compete directly or indirectly with the following categories of companies:

- sporting goods superstores, such as Academy Sports & Outdoors, Dick s Sporting Goods, The Sports Authority and Sport Chalet;
- traditional sporting goods stores and chains, such as Hibbett Sports and Modell s;
- specialty sporting goods shops and pro shops, such as Bass Pro Shops, Cabela s, Foot Locker, Gander Mountain, Golfsmith and REI;
- mass merchandisers, discount stores and department stores, such as JC Penney, Kmart, Kohl s, Sears, Target and Wal-Mart; and
- catalog and Internet-based retailers.

Some of our competitors have a larger number of stores and greater financial, distribution, marketing and other resources than we have. If our competitors reduce their prices, it may be difficult for us to reach our net sales goals without reducing our prices. As a result of this competition, we may also need to spend more on advertising and promotion than we anticipate. If we are unable to compete successfully, our operating results will suffer.

If we fail to anticipate changes in consumer preferences, we may experience lower net sales, higher inventory, higher inventory markdowns and lower margins.

Our products must appeal to a broad range of consumers whose preferences cannot be predicted with certainty. These preferences are also subject to change. Our success depends upon our ability to anticipate and respond in a timely manner to trends in sporting goods merchandise and consumers participation in sports. If we fail to identify and respond to these changes, our net sales may decline. In addition, because we often make commitments to purchase products from our vendors up to six months in advance of the proposed delivery, if we misjudge the market for our merchandise, we may over-stock unpopular products and be forced to take inventory markdowns that could have a negative impact on profitability.

Our quarterly net sales and operating results, reported and expected, can fluctuate substantially, which may adversely affect the market price of our common stock.

Our net and same store sales and results of operations, reported and expected, have fluctuated in the past and will vary from quarter to quarter in the future. These fluctuations may adversely affect our financial condition and the market price of our common stock. A number of factors, many of which are outside our control, have historically caused and will continue to cause variations in our quarterly net and same store sales and operating results, including changes in consumer demand for our products, competition in our markets, changes in pricing or other actions taken by our competitors, weather conditions in our markets, natural disasters, litigation, political events, changes in accounting standards, changes in management s accounting estimates or assumptions and economic conditions, including those specific to our western markets.

If we are unable to successfully implement our controlled growth strategy or manage our growing business, our future operating results could suffer.

One of our strategies includes opening profitable stores in new and existing markets. As a result, at the end of fiscal 2009 we operated approximately 24% more stores than we did at the end of fiscal 2004. During fiscal 2009, we slowed our store growth efforts as a result of the economic recession. Our ability to successfully implement and capitalize on our growth strategy could be negatively affected by various factors including:

- we may choose to slow our expansion efforts as a result of challenging conditions in the retail industry and the economic recession overall;
- we may not be able to find suitable sites available for leasing;
- we may not be able to negotiate acceptable lease terms;
- we may not be able to hire and retain qualified store personnel; and
- we may not have the financial resources necessary to fund our expansion plans.

In addition, our expansion in new and existing markets may present competitive, distribution and merchandising challenges that differ from our current challenges. These potential new challenges include competition among our stores, added strain on our distribution center, additional information to be processed by our management information systems, diversion of management attention from ongoing operations and challenges associated with managing a substantially larger enterprise. We face additional challenges in entering new markets, including consumers lack of awareness of us, difficulties in hiring personnel and problems due to our unfamiliarity with local real estate markets and demographics. New markets may also have different competitive conditions, consumer tastes, responsiveness to print advertising and discretionary spending patterns than our existing markets. To the extent that we are not able to meet these new challenges, our net sales could decrease and our operating costs could increase.

Increased costs or declines in the effectiveness of print advertising, or a reduction in publishers of print advertising, could cause our operating results to suffer.

Our business relies heavily on print advertising. We utilize print advertising programs that include newspaper inserts, direct mailers and courier-delivered inserts in order to effectively deliver our message to our targeted markets. Newspaper circulation and readership has been declining, which could limit the number of people who receive or read our advertisements. Additionally, declining newspaper demand and the weak macroeconomic environment are adversely impacting newspaper publishers and could jeopardize their ability to operate, which could restrict our ability

to advertise in the manner we have in the past. If we are unable to develop other effective strategies to reach potential customers within our desired markets, awareness of our stores, products and promotions could decline and our net sales could suffer. In addition, an increase in the cost of print advertising, paper or postal or other delivery fees could increase the cost of our advertising and adversely affect our operating results.

Because our stores are concentrated in the western United States, we are subject to regional risks.

Our stores are located in the western United States. Because of this, we are subject to regional risks, such as the economy, including downturns in the housing market, state financial conditions and unemployment, weather

conditions, power outages, earthquakes and other natural disasters specific to the states in which we operate. For example, particularly in southern California where we have a high concentration of stores, seasonal factors such as unfavorable snow conditions, inclement weather or other localized conditions such as flooding, fires (such as those that occurred in fiscal 2009, 2008 and 2007), earthquakes or electricity blackouts could harm our operations. State and local regulatory compliance also can impact our financial results. Economic downturns or other adverse regional events could have an adverse impact upon our net sales and profitability and our ability to implement our planned expansion program.

If we lose key management or are unable to attract and retain the talent required for our business, our operating results could suffer.

Our future success depends to a significant degree on the skills, experience and efforts of Steven G. Miller, our Chairman, President and Chief Executive Officer, and other key personnel with longstanding tenure who are not obligated to stay with us. The loss of the services of any of these individuals could harm our business and operations. In addition, as our business grows, we will need to attract and retain additional qualified personnel in a timely manner and develop, train and manage an increasing number of management-level sales associates and other employees. Competition for qualified employees could require us to pay higher wages and benefits to attract a sufficient number of employees, and increases in the minimum wage or other employee benefit costs could increase our operating expense. If we are unable to attract and retain personnel as needed in the future, our net sales growth and operating results may suffer.

Our hardware and software systems are vulnerable to damage, theft or intrusion that could harm our business.

Our success, in particular our ability to successfully manage inventory levels and process customer transactions, largely depends upon the efficient operation of our computer hardware and software systems. We use management information systems to track inventory at the store level and aggregate daily sales information, communicate customer information and process purchasing card transactions, process shipments of goods and report financial information. These systems and our operations are vulnerable to damage or interruption from:

earthquake, fire, flood and other natural disasters;

power loss, computer systems failures, Internet and telecommunications or data network failures, operator negligence, improper operation by or supervision of employees;

physical and electronic loss of data, security breaches, misappropriation, data theft and similar events; and

computer viruses, worms, Trojan horses, intrusions, or other external threats.

Any failure of our computer hardware or software systems that causes an interruption in our operations or a decrease in inventory tracking could result in reduced net sales and profitability. Additionally, if any data intrusion, security breach, misappropriation or theft were to occur, we could incur significant costs in responding to such event, including responding to any resulting claims, litigation or investigations, which could harm our operating results.

If our suppliers do not provide sufficient quantities of products, our net sales and profitability could suffer.

We purchase merchandise from over 700 vendors. Although only one vendor represented more than 5.0% of our total purchases during fiscal 2009, our dependence on principal suppliers involves risk. Our 20 largest vendors collectively accounted for 35.2% of our total purchases during fiscal 2009. If there is a disruption in supply from a principal supplier or distributor, we may be unable to obtain merchandise that we desire to sell and that consumers desire to

purchase. A vendor could discontinue selling products to us at any time for reasons that may or may not be within our control. Our net sales and profitability could decline if we are unable to promptly replace a vendor who is unwilling or unable to satisfy our requirements with a vendor providing equally appealing products. Moreover, many of our suppliers provide us with incentives, such as return privileges, volume purchase allowances and co-operative advertising. A decline or discontinuation of these incentives could reduce our profits.

Because many of the products that we sell are manufactured abroad, we may face delays, increased cost or quality control deficiencies in the importation of these products, which could reduce our net sales and profitability.

Like many other sporting goods retailers, a significant portion of the products that we purchase for resale, including those purchased from domestic suppliers, is manufactured abroad in countries such as China, Taiwan and South Korea. In addition, we believe most, if not all, of our private label merchandise is manufactured abroad. Foreign imports subject us to the risks of changes in import duties or quotas, new restrictions on imports, loss of most favored nation status with the United States for a particular foreign country, work stoppages, delays in shipment, freight cost increases, product cost increases due to foreign currency fluctuations or revaluations and economic uncertainties (including the United States imposing antidumping or countervailing duty orders, safeguards, remedies or compensation and retaliation due to illegal foreign trade practices). If any of these or other factors were to cause a disruption of trade from the countries in which the suppliers of our vendors are located, we may be unable to obtain sufficient quantities of products to satisfy our requirements or our cost of obtaining products may increase. In addition, to the extent that any foreign manufacturers which supply products to us directly or indirectly utilize quality control standards, labor practices or other practices that vary from those legally allowed or commonly accepted in the United States (such as the high lead content found in several products manufactured abroad during the past few years), we could be hurt by any resulting negative publicity or, in some cases, face potential liability. Historically, instability in the political and economic environments of the countries in which our vendors or we obtain our products has not had a material adverse effect on our operations. However, we cannot predict the effect that future changes in economic or political conditions in such foreign countries may have on our operations. In the event of disruptions or delays in supply due to economic or political conditions in foreign countries, such disruptions or delays could adversely affect our results of operations unless and until alternative supply arrangements could be made. In addition, merchandise purchased from alternative sources may be of lesser quality or more expensive than the merchandise we currently purchase abroad.

Disruptions in transportation, including disruptions at shipping ports through which our products are imported, could prevent us from timely distribution and delivery of inventory, which could reduce our net sales and profitability.

A substantial amount of our inventory is manufactured abroad. From time to time, shipping ports experience capacity constraints, labor strikes, work stoppages or other disruptions that may delay the delivery of imported products. In addition, acts of terrorism could significantly disrupt operations at shipping ports or otherwise impact transportation of the imported merchandise we sell.

Future disruptions at a shipping port at which our products are received may result in delays in the transportation of such products to our distribution center and may ultimately delay the stocking of our stores with the affected merchandise. As a result, our net sales and profitability could decline.

All of our stores rely on a single distribution center. Any disruption or other operational difficulties at this distribution center could reduce our net sales or increase our operating costs.

We rely on a single distribution center to service our business. Any natural disaster or other serious disruption to the distribution center due to fire, earthquake or any other cause could damage a significant portion of our inventory and could materially impair both our ability to adequately stock our stores and our net sales and profitability. If the security measures used at our distribution center do not prevent inventory theft, our gross margin may significantly decrease. Further, in the event that we are unable to grow our net sales sufficiently to allow us to leverage the costs of this facility in the manner we anticipate, our financial results could be negatively impacted.

Increases in transportation costs due to rising fuel costs, climate change regulation and other factors may negatively impact our operating results.

We rely upon various means of transportation, including sea and truck, to deliver products from vendors to our distribution center and from our distribution center to our stores. Consequently, our results can vary depending upon the price of fuel. The price of oil has fluctuated drastically over the last few years, and may rapidly increase again, which would sharply increase our fuel costs. In addition, efforts to combat climate change through reduction of greenhouse gases may result in higher fuel costs through taxation or other means. Any such future increases in fuel

costs would increase our transportation costs for delivery of product to our distribution center and distribution to our stores, as well as our vendors transportation costs, which could decrease our operating profits.

In addition, labor shortages in the transportation industry could negatively affect transportation costs and our ability to supply our stores in a timely manner. In particular, our business is highly dependent on the trucking industry to deliver products to our distribution center and our stores. Our operating results may be adversely affected if we or our vendors are unable to secure adequate trucking resources at competitive prices to fulfill our delivery schedules to our distribution center or stores.

Terrorism and the uncertainty of war may harm our operating results.

Terrorist attacks or acts of war may cause damage or disruption to us and our employees, facilities, information systems, vendors and customers, which could significantly impact our net sales, profitability and financial condition. Terrorist attacks could also have a significant impact on ports or international shipping on which we are substantially dependent for the supply of much of the merchandise we sell. Our corporate headquarters is located near Los Angeles International Airport and the Port of Los Angeles, which have been identified as potential terrorism targets. The potential for future terrorist attacks, the national and international responses to terrorist attacks and other acts of war or hostility may cause greater uncertainty and cause our business to suffer in ways that we currently cannot predict. Military action taken in response to such attacks could also have a short or long-term negative economic impact upon the financial markets, international shipping and our business in general.

Our costs may change as a result of currency exchange rate fluctuations.

We source goods from various countries, including China, and thus changes in the value of the U.S. dollar compared to other currencies may affect the costs of goods that we purchase.

Risks Related to Our Capital Structure

We are leveraged, future cash flows may not be sufficient to meet our obligations and we might have difficulty obtaining more financing or refinancing our existing indebtedness on favorable terms.

As of January 3, 2010, the aggregate amount of our outstanding indebtedness, including capital lease obligations, was $59.1 million. Our leveraged financial position means:

- our ability to obtain financing in the future for working capital, capital expenditures and general corporate purposes might be impeded;
- we are more vulnerable to economic downturns and our ability to withstand competitive pressures is limited; and
- we are more vulnerable to increases in interest rates, which may affect our interest expense and negatively impact our operating results.

If our business declines, our future cash flow might not be sufficient to meet our obligations and commitments.

If we fail to make any required payment under our financing agreement, our debt payments may be accelerated under this instrument. In addition, in the event of bankruptcy, insolvency or a material breach of any covenant contained in our financing agreement, our debt may be accelerated. This acceleration could also result in the acceleration of other indebtedness that we may have outstanding at that time.

The level of our indebtedness, and our ability to service our indebtedness, is directly affected by our cash flow from operations. If we are unable to generate sufficient cash flow from operations to meet our obligations, commitments and covenants of our financing agreement, we may be required to refinance or restructure our indebtedness, raise additional debt or equity capital, sell material assets or operations, delay or forego expansion opportunities, or cease or curtail our quarterly dividends or share repurchase plans. These alternative strategies might not be effected on satisfactory terms, if at all.

In addition, our current credit agreement expires in March 2011, and we expect to renegotiate or refinance this facility in fiscal 2010. Due to the disruptions in the financing markets and resulting tightening of credit markets in fiscal 2008 and fiscal 2009, we expect that any new facility will be on less favorable terms, including less favorable

interest rates, which would negatively impact our financial results. Further, if our debt levels return to historical levels, any increase in interest rates would have a proportionately greater effect on our financial results.

The terms of our financing agreement impose operating and financial restrictions on us, which may impair our ability to respond to changing business and economic conditions.

The terms of our financing agreement impose operating and financial restrictions on us, including, among other things, covenants that require us to maintain a fixed-charge coverage ratio of not less than 1.0 to 1.0 in certain circumstances, restrictions on our ability to incur additional indebtedness, create or allow liens, pay dividends, repurchase stock, engage in mergers, acquisitions or reorganizations or make specified capital expenditures. For example, our ability to engage in the foregoing transactions will depend upon, among other things, our level of indebtedness at the time of the proposed transaction and whether we are in default under our financing agreement. As a result, our ability to respond to changing business and economic conditions and to secure additional financing, if needed, may be significantly restricted, and we may be prevented from engaging in transactions that might further our growth strategy or otherwise benefit us and our stockholders without obtaining consent from our lenders. In addition, our financing agreement is secured by a first priority security interest in our accounts receivable, merchandise inventories, service marks and trademarks and other general intangible assets, including trade names. In the event of our insolvency, liquidation, dissolution or reorganization, the lenders under our financing agreement would be entitled to payment in full from our assets before distributions, if any, were made to our stockholders.

Risks Related to Regulatory, Legislative and Legal Matters

Current and future government regulation may negatively impact demand for our products and increase our cost of conducting business.

The conduct of our business, and the distribution, sale, advertising, labeling, safety, transportation and use of many of our products are subject to various laws and regulations administered by federal, state and local governmental agencies in the United States. These laws and regulations may change, sometimes dramatically, as a result of political, economic or social events. Changes in laws, regulations or governmental policy may alter the environment in which we do business and the demand for our products and, therefore, may impact our financial results or increase our liabilities. Some of these laws and regulations include:

- laws and regulations governing the manner in which we advertise or sell our products;
- laws and regulations that prohibit or limit the sale, in certain localities, of certain products we offer, such as firearms and ammunition;
- laws and regulations governing the activities for which we sell products, such as hunting and fishing;
- laws and regulations governing consumer products, such as the lead and phthalate restrictions included in the federal Consumer Product Safety Improvement Act and similar state laws;
- labor and employment laws, such as minimum wage or living wage laws, wage and hour laws and laws requiring mandatory health insurance for employees; and
- U.S. customs laws and regulations pertaining to proper item classification, quotas and payment of duties and tariffs.

Changes in these and other laws and regulations or additional regulation could cause the demand for and sales of our products to decrease. Moreover, complying with increased or changed regulations could cause our operating expense to increase. This could adversely affect our net sales and profitability.

The sale of firearms and ammunition is subject to strict regulation, which could affect our operating results.

Because we sell firearms and ammunition, we are required to comply with federal, state and local laws and regulations pertaining to the purchase, storage, transfer and sale of firearms and ammunition. These laws and regulations require us, among other things, to ensure that all purchasers of firearms are subjected to a pre-sale background check, to record the details of each firearm sale on appropriate government-issued forms, to record each receipt or transfer of a firearm at our distribution center or any store location on acquisition and disposition records,

and to maintain these records for a specified period of time. We also are required to timely respond to traces of firearms by law enforcement agencies. Over the past several years, the purchase and sale of firearms and ammunition has been the subject of increased federal, state and local regulation, and this may continue in our current markets and other markets into which we may expand. If we fail to comply with existing or newly enacted laws and regulations relating to the purchase and sale of firearms and ammunition, our licenses to sell firearms at our stores or maintain inventory of firearms at our distribution center may be suspended or revoked. If this occurs, our net sales and profitability could suffer. Further, complying with increased regulation relating to the sale of firearms and ammunition could cause our operating expense to increase and this could adversely affect our operating results.

We may be subject to periodic litigation that may adversely affect our business and financial performance, including litigation related to products we sell and employment matters.

From time to time, we may be involved in lawsuits and regulatory actions relating to our business, certain of which may be maintained in jurisdictions with reputations for aggressive application of laws and procedures against corporate defendants. Due to the inherent uncertainties of litigation and regulatory proceedings, we cannot accurately predict the ultimate outcome of any such proceedings. An unfavorable outcome could have a material adverse impact on our business, financial condition and results of operations. In addition, regardless of the outcome of any litigation or regulatory proceedings, these proceedings could result in substantial costs and may require that we devote substantial resources to defend against these claims, which could impact our operating results.

In particular, we sell products manufactured by third parties, some of which may or may not be defective. Many such products are manufactured overseas, particularly in China, Taiwan and South Korea, which may increase our risk that such products may be defective (such as, for example, in the cases of products reported over the past few years to have high lead content). If any products that we sell were to cause physical injury or injury to property, the injured party or parties could bring claims against us as the retailer of the products based upon strict product liability. In addition, our products are subject to the federal Consumer Product Safety Act and the Consumer Product Safety Improvement Act, which empower the Consumer Product Safety Commission to protect consumers from hazardous products. The Consumer Product Safety Commission has the authority to exclude from the market and recall certain consumer products that are found to be hazardous. Similar laws exist in some states and cities in the United States. If we fail to comply with government and industry safety standards, we may be subject to claims, lawsuits, product recalls, fines and negative publicity that could harm our financial condition and operating results.

In addition, we sell firearms and ammunition, products associated with an increased risk of injury and related lawsuits. We may incur losses due to lawsuits relating to our performance of background checks on firearms purchases as mandated by state and federal law or the improper use of firearms sold by us, including lawsuits by municipalities or other organizations attempting to recover costs from firearms manufacturers and retailers relating to the misuse of firearms. Commencement of these lawsuits against us could reduce our net sales and decrease our profitability.

From time to time we may also be involved in lawsuits related to employment and other matters, including class action lawsuits brought against us for alleged violations of the Fair Labor Standards Act and state wage and hour laws as well as other laws. An unfavorable outcome or settlement in any such proceeding could, in addition to requiring us to pay any settlement or judgment amount, increase our operating expense as a consequence of any resulting changes we might be required to make in employment or other business practices.

Our insurance coverage may not be adequate to cover claims that could be asserted against us. If a successful claim were brought against us in excess of our insurance coverage, it could harm our business. Even unsuccessful claims could result in the expenditure of funds and management time and could have a negative impact on our business.

Changes in accounting standards and subjective assumptions, estimates and judgments by management related to complex accounting matters could significantly affect our financial results.

Generally accepted accounting principles and related accounting pronouncements, implementation guidelines and interpretations with regard to a wide range of matters that are relevant to our business, such as revenue recognition; lease accounting; the carrying amount of property and equipment and goodwill; valuation allowances for receivables, sales returns, inventories and deferred income tax assets; estimates related to the valuation of stock

options; and obligations related to asset retirements, litigation, workers compensation and employee benefits are highly complex and may involve many subjective assumptions, estimates and judgments by our management. Changes in these rules or their interpretation or changes in underlying assumptions, estimates or judgments by our management could significantly change our reported or expected financial performance.

Risks Related to Investing in Our Common Stock

The declaration of discretionary dividend payments may not continue.

We currently pay quarterly dividends subject to capital availability and periodic determinations that cash dividends are in the best interest of us and our stockholders. Our dividend policy may be affected by, among other items, business conditions, our views on potential future capital requirements, the terms of our debt instruments, legal risks, changes in federal income tax law and challenges to our business model. For example, as discussed elsewhere herein, due to the economic recession, we reduced our quarterly cash dividend to $0.05 per share of outstanding common stock, for an annual rate of $0.20 per share. Our dividend policy may change from time to time and we may or may not continue to declare discretionary dividend payments. A change in our dividend policy could have a negative effect on our stock price.

Our anti-takeover provisions could prevent or delay a change in control of our company, even if such change of control would be beneficial to our stockholders.

Provisions of our amended and restated certificate of incorporation and amended and restated bylaws as well as provisions of Delaware law could discourage, delay or prevent a merger, acquisition or other change in control of our company, even if such change in control would be beneficial to our stockholders. These provisions include:

a Board of Directors that is classified such that only one-third of directors are elected each year;

authorization of the issuance of blank check preferred stock that could be issued by our Board of Directors to increase the number of outstanding shares and thwart a takeover attempt;

limitations on the ability of stockholders to call special meetings of stockholders;

prohibition of stockholder action by written consent and requiring all stockholder actions to be taken at a meeting of our stockholders; and

establishment of advance notice requirements for nominations for election to the Board of Directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

In addition, Section 203 of the Delaware General Corporations Law limits business combination transactions with 15% stockholders that have not been approved by the Board of Directors. These provisions and other similar provisions make it more difficult for a third party to acquire us without negotiation. These provisions may apply even if the transaction may be considered beneficial by some stockholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Properties

Our corporate headquarters are located at 2525 East El Segundo Boulevard, El Segundo, California 90245, where we lease approximately 55,000 square feet of office and adjoining retail space. The lease is scheduled to expire on February 28, 2011 and provides us with one five-year renewal option.

Our distribution facility is located in Riverside, California and has approximately 953,000 square feet of warehouse and office space. Our lease for the distribution center is scheduled to expire on August 31, 2015, and includes three additional five-year renewal options.

We lease all but one of our retail store sites. Most of our store leases contain multiple fixed-price renewal options and the average lease expiration term from inception of our store leases, taking into account renewal options, is approximately 32 years. Of the total store leases, 29 leases are due to expire in the next five years without renewal options.

Our Stores

Throughout our history, we have focused on operating traditional, full-line sporting goods stores. Our stores generally range from 8,000 to 15,000 square feet and average approximately 11,000 square feet. Our typical store is located in either a free-standing street location or a multi-store shopping center. Our numerous convenient locations and accessible store format encourage frequent customer visits, resulting in approximately 27.8 million sales transactions and an average transaction size of approximately $32 in fiscal 2009. The following table details our store locations by state as of January 3, 2010:

State	Year Entered	Number of Stores	Percentage of Total Number of Stores
California	1955	195	50.8%
Washington	1984	43	11.2
Arizona	1993	34	8.8
Oregon	1995	22	5.7
Colorado	2001	21	5.4
Utah	1997	16	4.2
Nevada	1978	15	3.9
New Mexico	1995	15	3.9
Idaho	1994	11	2.9
Texas	1995	11	2.9
Oklahoma	2007	1	0.3
Total		384	100.0%

Our store format has resulted in productivity levels that we believe are among the highest of any full-line sporting goods retailer, with same store sales per square foot of approximately $210 for fiscal 2009. Our high same store sales per square foot combined with our efficient store-level operations and low store maintenance costs have allowed us to historically generate strong store-level returns.

ITEM 3. 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. The court has scheduled a hearing for June 11, 2010, to consider the parties request to preliminarily approve the proposed settlement. Under the terms of the proposed 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 proposed 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 preliminary or 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 could have a material adverse effect on the Company s financial condition, and any required change in the Company s labor practices, as well as the costs of defending this litigation, could have a negative impact on the Company s results of operations.

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 adverse effect on the Company s financial position, results of operations or liquidity.

ITEM 4. (REMOVED AND RESERVED)

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock, par value $0.01 per share, trades on The NASDAQ Stock Market LLC under the symbol BGFV . The following table sets forth the high and low closing sale prices for our common stock as reported by The NASDAQ Stock Market LLC during fiscal 2009 and 2008:

	2009		2008	
Fiscal Period	**High**	**Low**	**High**	**Low**
First Quarter	$ 7.42	$ 4.46	$ 14.42	$ 7.83
Second Quarter	$ 13.23	$ 5.74	$ 9.59	$ 7.70
Third Quarter	$ 15.95	$ 10.49	$ 10.91	$ 6.93
Fourth Quarter	$ 17.95	$ 14.53	$ 10.41	$ 3.30

As of February 26, 2010, the closing price for our common stock as reported on The NASDAQ Stock Market LLC was $15.28.

As of February 26, 2010, there were 21,567,266 shares of common stock outstanding held by approximately 200 holders of record.

Performance Graph

Set forth below is a graph comparing the cumulative total stockholder return for our common stock with the cumulative total return of (i) the NASDAQ Composite Stock Market Index and (ii) the NASDAQ Retail Trade Index. The information in this graph is provided at annual intervals for the fiscal years ended 2005, 2006, 2007, 2008 and 2009. This graph shows historical stock price performance (including reinvestment of dividends) and is not necessarily indicative of future performance:

* $100 invested on 1/2/05 in stock or 12/31/04 in index, including reinvestment of dividends. Indexes calculated on month-end basis.

Dividend Policy

Dividends are paid at the discretion of the Board of Directors. Our Board of Directors authorized dividends at an annual rate of $0.36 per share of outstanding common stock and quarterly dividend payments of $0.09 per share were paid in fiscal 2007 and 2008. In the first quarter of fiscal 2009, our Board of Directors reduced the quarterly dividend payment to $0.05 per share of outstanding common stock for an annual rate of $0.20 per share, and

quarterly dividend payments of $0.05 per share were paid in fiscal 2009. This decision was consistent with our objective to utilize capital to maintain a healthy financial condition during the economic recession. In the first 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 March 22, 2010 to stockholders of record as of March 8, 2010.

The financing agreement governing our revolving credit facility imposes restrictions on our ability to make dividend payments. For example, our ability to pay cash dividends on our common stock will depend upon, among other things, our level of indebtedness at the time of the proposed dividend or distribution, whether we are in default under the financing agreement and the amount of dividends or distributions made in the past. Our future dividend policy will also depend on the requirements of any future financing agreements to which we may be a party and other factors considered relevant by our Board of Directors, including the General Corporation Law of the State of Delaware, which provides that dividends are only payable out of surplus or current net profits.

Securities Authorized for Issuance Under Equity Compensation Plans as of January 3, 2010

See Item 12, *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*, of this Annual Report on Form 10-K.

ITEM 6. SELECTED FINANCIAL DATA

The Statement of Operations Data and the Balance Sheet Data for all years presented below have been derived from our audited consolidated financial statements. Selected consolidated financial data under the captions Store Data and Other Financial Data have been derived from the unaudited internal records of our operations. The information contained in these tables should be read in conjunction with our consolidated financial statements and accompanying notes and *Management s Discussion and Analysis of Financial Condition and Results of Operations* appearing elsewhere in this Annual Report on Form 10-K.

	Fiscal Year[1]				
	2009	2008	2007	2006	2005
	(Dollars and shares in thousands, except per share and certain store data)				
Statement of Operations Data:					
Net sales	$ 895,542	$ 864,650	$ 898,292	$ 876,805	$ 813,978
Cost of sales[2][4]	597,792	579,165	589,150	575,577	534,155
Gross profit[4]	297,750	285,485	309,142	301,228	279,823
Selling and administrative expense[3][5]	260,068	257,883	256,180	242,769	229,980
Operating income	37,682	27,602	52,962	58,459	49,843
Other income					(1,462)
Interest expense	2,465	5,198	6,614	7,516	5,839
Income before income taxes	35,217	22,404	46,348	50,943	45,466
Income taxes	13,406	8,500	18,257	20,108	17,927
Net income[4][5][6]	$ 21,811	$ 13,904	$ 28,091	$ 30,835	$ 27,539
Earnings per share:					
Basic	$ 1.02	$ 0.64	$ 1.25	$ 1.36	$ 1.21
Diluted	$ 1.01	$ 0.64	$ 1.25	$ 1.35	$ 1.21
Dividends per share	$ 0.20	$ 0.36	$ 0.36	$ 0.34	$ 0.28
Weighted-average shares of common stock outstanding:					
Basic	21,434	21,608	22,465	22,691	22,680
Diluted	21,657	21,619	22,559	22,795	22,802
Store Data:					
Same store sales (decrease) increase[7]	(0.6)%	(7.0)%	(1.0)%	4.0%	2.4%
Same store sales per square foot (in dollars)[8]	$ 210	$ 213	$ 233	$ 242	$ 238
End of period stores	384	381	363	343	324

End of period same stores	362	339	321	305	287
Same store sales per store[9]	$ 2,373	$ 2,393	$ 2,625	$ 2,708	$ 2,657
Other Financial Data:					
Depreciation and amortization	$ 19,400	$ 19,135	$ 17,687	$ 17,115	$ 15,526
Capital expenditures[10]	$ 5,764	$ 20,447	$ 20,769	$ 18,209	$ 34,680
Inventory turns[11]	2.6x	2.4x	2.3x	2.4x	2.4x
Balance Sheet Data:					
Cash and cash equivalents	$ 5,765	$ 9,058	$ 9,741	$ 5,145	$ 6,054
Working capital[12]	$ 120,541	$ 129,282	$ 133,034	$ 101,549	$ 93,145
Total assets	$ 366,122	$ 388,357	$ 403,923	$ 367,679	$ 352,983
Long-term debt and capital leases, less current portion	$ 57,233	$ 99,447	$ 105,648	$ 80,078	$ 93,288
Stockholders equity	$ 131,861	$ 111,800	$ 109,155	$ 100,460	$ 75,671

(See notes on following page:)

(Notes to table on previous page)

(1) Our fiscal year is the 52 or 53-week reporting period ending on the Sunday closest to the calendar year end. Fiscal 2009 included 53 weeks and fiscal 2008, 2007, 2006 and 2005 each included 52 weeks.

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

(3) 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.

(4) In the second quarter of fiscal 2008, we recorded a nonrecurring pre-tax charge of $1.5 million to correct an error in our previously recognized straight-line rent expense, substantially all of which related to prior periods and accumulated over a period of 15 years. This charge reduced net income in fiscal 2008 by $0.9 million, or $0.04 per diluted share. We have determined this charge to be immaterial to our prior periods consolidated financial statements.

(5) In the fourth quarter of fiscal 2009, we recorded a net pre-tax charge of $1.0 million, which reflected a legal settlement accrual offset by proceeds received from the settlement of a lawsuit relating to credit card fees. This charge reduced net income in fiscal 2009 by $0.6 million, or $0.03 per diluted share.

(6) Although net income in fiscal 2009 reflects an extra week of sales (see Note 1 above) and slightly improved customer traffic for the year, net income for fiscal 2009, 2008 and 2007 was impacted by the economic recession and continued uncertainty in the financial sector. Lower net income for fiscal 2005 reflects costs for commencement of operations at our new larger distribution center and costs associated with the restatement of our prior period consolidated financial statements.

(7) Same store sales for a period reflect net sales from stores operated throughout that period as well as the corresponding prior period; e.g., two comparable annual reporting periods for annual comparisons. Fiscal 2009, 2008 and 2007 reflect the economic recession and continued uncertainty in the financial sector, which resulted in negative same store sales for each fiscal year.

(8) Same store sales per square foot is calculated by dividing net sales for same stores, as defined above, by the total square footage for those stores. Fiscal 2009, 2008 and 2007 reflect the economic recession and continued uncertainty in the financial sector.

(9) Same store sales per store is calculated by dividing net sales for same stores, as defined above, by total same store count. Fiscal 2009, 2008 and 2007 reflect the economic recession and continued uncertainty in the financial sector.

(10) Lower capital expenditures in fiscal 2009 reflect substantially fewer store openings when compared with prior years due to the economic recession. Higher capital expenditures in fiscal 2005 reflect amounts paid for a new distribution center.

(11) Inventory turns equal fiscal year cost of sales divided by the fiscal year four-quarter weighted-average cost of merchandise inventory.

(12) Working capital is defined as current assets less current liabilities. In the second quarter of fiscal 2008, we reclassified approximately $5.1 million of workers compensation reserves from accrued expenses to other long-term liabilities on the consolidated balance sheet as of December 30, 2007. Additionally, we reclassified approximately $2.0 million of the related deferred income tax assets from current deferred income tax assets to long-term deferred income tax assets on the consolidated balance sheet as of December 30, 2007. This reclassification increased working capital for fiscal 2008 and 2007 by $3.1 million, but had no effect on our previously reported consolidated statements of operations or consolidated statements of cash flows, and is not considered material to any previously reported consolidated financial statements. Working capital in fiscal 2007 was impacted by higher inventory levels at the end of the year associated with lower than anticipated sales for the fourth quarter of fiscal 2007.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Throughout this section, our fiscal years ended January 3, 2010, December 28, 2008 and December 30, 2007 are referred to as fiscal 2009, 2008 and 2007, respectively. The following discussion and analysis of our financial condition and results of operations for fiscal 2009, 2008 and 2007 includes information with respect to our plans and strategies for our business and should be read in conjunction with the consolidated financial statements and related notes, the risk factors and the cautionary statement regarding forward-looking information included elsewhere in this Annual Report on Form 10-K.

Our fiscal year ends on the Sunday nearest December 31. Fiscal 2009 included 53 weeks, while fiscal 2008 and 2007 each included 52 weeks.

Overview

We are a leading sporting goods retailer in the western United States, operating 384 stores in 11 states under the name Big 5 Sporting Goods at January 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.

We believe that over our 55-year history we have developed a reputation with the competitive and recreational sporting goods customer as a convenient neighborhood sporting goods retailer that consistently delivers value on quality merchandise. Our stores carry a wide range of products at competitive prices from well-known brand name manufacturers, including adidas, Coleman, Easton, New Balance, Nike, Reebok, Spalding, Under Armour and Wilson. We also offer brand name merchandise produced exclusively for us, private label merchandise and specials on quality items we purchase through opportunistic buys of vendor over-stock and close-out merchandise. We reinforce our value reputation through weekly print advertising in major and local newspapers and mailers designed to generate customer traffic, drive net sales and build brand awareness.

Throughout our history, we have emphasized controlled growth. Our fiscal 2009 growth was slowed substantially in response to the economic recession. We anticipate opening between 10 and 15 net new stores in fiscal 2010 compared to three net new stores in fiscal 2009. The following table summarizes our store count for the periods presented:

	Fiscal Year		
	2009	**2008**	**2007**
Big 5 Sporting Goods stores:			
Beginning of period	381	363	343
New stores[(1)]	3	19	23
Stores relocated		(1)	(3)
Stores closed			
End of period	384	381	363
New stores opened per year, net	3	18	20

(1) Stores that are relocated are classified as new stores. Sales from the prior location are treated as sales from a closed store and thus are excluded from same store sales calculations.

Executive Summary

The economic recession and uncertainty in the financial sector have resulted in a difficult environment for retailers. If measures implemented, or to be implemented, by the federal and state governments or private sector spending fail to stimulate an economic recovery, this economic recession could continue. While our results for fiscal 2009, 2008 and 2007 reflect this recession, our results improved in fiscal 2009 compared with fiscal 2008.

Net income for fiscal 2009 increased 56.9% to $21.8 million, or $1.01 per diluted share, compared to $13.9 million, or $0.64 per diluted share, for fiscal 2008. The increase was driven primarily by higher sales levels, and a decrease in selling and administrative expense and interest expense as a percent of net sales.

Net sales for fiscal 2009 increased 3.6% to $895.5 million. The increase in net sales was primarily attributable to an extra week of business in fiscal 2009, as well as increased sales from new stores, partially offset by lower same store sales.

Gross profit for fiscal 2009 represented 33.2% of net sales, which was approximately 20 basis points higher than the prior year. Lower distribution costs were offset by higher store occupancy expense, due primarily to new store openings. Merchandise margins were 15 basis points lower than last year.

Selling and administrative expense as a percentage of net sales for fiscal 2009 decreased by approximately 80 basis points to 29.0%. The decrease was due to higher sales levels. Higher operating costs related to new store openings and a legal settlement accrual were partially offset by lower advertising expense.

Operating income for fiscal 2009 rose 36.5% to $37.7 million, or 4.2% of net sales, compared to $27.6 million, or 3.2% of net sales, for fiscal 2008. Operating income was favorably impacted by the increase in net sales. The increase as a percentage of net sales was primarily due to a higher gross profit margin and lower selling and administrative expense as a percentage of net sales compared to the prior year.

Results of Operations

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

	Fiscal Year[1]					
	2009		2008 (Dollars in thousands)		2007	
Statement of Operations Data:						
Net sales	$ 895,542	100.0%	$ 864,650	100.0%	$ 898,292	100.0%
Cost of sales[2][3]	597,792	66.8	579,165	67.0	589,150	65.6
Gross profit[3]	297,750	33.2	285,485	33.0	309,142	34.4
Selling and administrative expense[4][5]	260,068	29.0	257,883	29.8	256,180	28.5
Operating income	37,682	4.2	27,602	3.2	52,962	5.9
Interest expense	2,465	0.3	5,198	0.6	6,614	0.7
Income before income taxes	35,217	3.9	22,404	2.6	46,348	5.2
Income taxes	13,406	1.5	8,500	1.0	18,257	2.1
Net income[3][5]	$ 21,811	2.4%	$ 13,904	1.6%	$ 28,091	3.1%

Other Financial Data:			
Net sales change	3.6%	(3.7)%	2.5%
Same store sales change[6]	(0.6)%	(7.0)%	(1.0)%
Net income change[7]	56.9%	(50.5)%	(8.9)%

(1) Fiscal 2009 included 53 weeks. Fiscal 2008 and 2007 each included 52 weeks.

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

(3) In the second quarter of fiscal 2008, we recorded a nonrecurring pre-tax charge of $1.5 million to correct an error in our previously recognized straight-line rent expense, substantially all of which related to prior periods and accumulated over a period of 15 years. This charge reduced net income in fiscal 2008 by $0.9 million, or $0.04 per diluted share. We have determined this charge to be immaterial to our prior periods consolidated financial statements.

(4) 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.

(5) In the fourth quarter of fiscal 2009, we recorded a net pre-tax charge of $1.0 million, which reflected a legal settlement accrual offset by proceeds received from the settlement of a lawsuit relating to credit card fees. This charge reduced net income in fiscal 2009 by $0.6 million, or $0.03 per diluted share.

(6) Same store sales for a period reflect net sales from stores operated throughout that period as well as the corresponding prior period; e.g., two comparable annual reporting periods for annual comparisons. Same store sales comparisons for fiscal 2009 versus fiscal 2008 were made on a comparable 53-week basis.

(7) Net income for fiscal 2009, 2008 and 2007 reflected the impact of the economic recession, which weakened consumer demand and negatively impacted our net sales.

Fiscal 2009 Compared to Fiscal 2008

Net Sales. Net sales increased by $30.8 million, or 3.6%, to $895.5 million for fiscal 2009 from $864.7 million for fiscal 2008. The change in net sales was primarily attributable to the following:

The extra week in fiscal 2009 contributed $17.4 million to net sales.

New store sales increased, reflecting the opening of 21 new stores, net of closures and relocations, since December 30, 2007. This increase was offset by a decrease in same store sales of 0.6% for fiscal 2009 when compared on a 53-week basis for both fiscal 2009 and 2008, as well as a reduction in closed store sales.

While net sales for fiscal 2009 continued to be impacted by the economic recession that began in fiscal 2007, we experienced increased customer traffic into our retail stores when compared with last year.

Store count at the end of fiscal 2009 was 384 versus 381 at the end of fiscal 2008. We opened three new stores in fiscal 2009, and opened 18 new stores, net of closures and relocations, in fiscal 2008. Our fiscal 2009 store growth was slowed substantially in response to the economic recession. We anticipate opening between 10 and 15 net new stores in fiscal 2010.

Gross Profit. Gross profit increased by $12.3 million, or 4.3%, to $297.8 million, or 33.2% of net sales, in fiscal 2009 from $285.5 million, or 33.0% of net sales, in fiscal 2008. The change in gross profit was primarily attributable to the following:

Net sales increased by $30.8 million in fiscal 2009 compared to the prior year.

Distribution costs decreased by $2.1 million, or 40 basis points, in fiscal 2009 compared to fiscal 2008, due primarily to lower trucking expense combined with reduced labor expense attributable to reduced headcount.

Merchandise margins, which exclude buying, occupancy and distribution costs, decreased for fiscal 2009 by 15 basis points versus fiscal 2008, primarily due to shifts in product sales mix and product cost inflation experienced during the first half of fiscal 2009.

Store occupancy costs for fiscal 2009 increased by $3.4 million, or 10 basis points, year over year, due primarily to the increase in store count and higher depreciation. The increase in store occupancy costs was

offset by the impact in fiscal 2008 of a second quarter nonrecurring pre-tax charge of $1.5 million to correct an error in our previously recognized straight-line rent expense (see footnote 3 of table on page 23).

Selling and Administrative Expense. Selling and administrative expense increased by $2.2 million, or 0.8%, to $260.1 million, or 29.0% of net sales, in fiscal 2009 from $257.9 million, or 29.8% of net sales, in fiscal 2008. The change in selling and administrative expense was primarily attributable to the following:

Store-related expense, excluding occupancy, increased by $6.4 million, or 7 basis points, due primarily to higher labor and operating costs to support the increase in store count.

Administrative expense for fiscal 2009 increased by $1.9 million, primarily as a result of increased legal expense that included a net pre-tax charge of $1.0 million, which reflected a legal settlement accrual offset by proceeds received from the settlement of a lawsuit relating to credit card fees.

Advertising expense for fiscal 2009 decreased by $6.1 million, or 89 basis points, due primarily to a reduction in the frequency and distribution of advertising circulars, as well as lower printing costs.

The decrease in selling and administrative expense as a percentage of net sales for fiscal 2009 compared to fiscal 2008 was a result of higher net sales in fiscal 2009.

Interest Expense. Interest expense decreased by $2.7 million, or 52.6%, to $2.5 million in fiscal 2009 from $5.2 million in fiscal 2008. The decrease in interest expense primarily reflects a reduction in average debt levels of approximately $23.8 million in fiscal 2009 combined with a reduction in average interest rates of approximately 230 basis points to 2.2% during fiscal 2009 from 4.5% in fiscal 2008.

Income Taxes. The provision for income taxes was $13.4 million for fiscal 2009 compared with $8.5 million for fiscal 2008. This increase was primarily due to higher pre-tax income in fiscal 2009 compared to the prior year. Our effective tax rate was 38.1% for fiscal 2009 compared with 37.9% for fiscal 2008.

Fiscal 2008 Compared to Fiscal 2007

Net Sales. Net sales decreased by $33.6 million, or 3.7%, to $864.7 million for fiscal 2008 from $898.3 million for fiscal 2007. The decline in net sales was primarily attributable to the following:

Net sales for fiscal 2008 continued to be impacted by the economic recession that began in fiscal 2007, which resulted in lower customer traffic into our retail stores.

Same store sales and closed store sales decreased by $61.0 million and $5.7 million, respectively, which was partially offset by an increase of $33.8 million in new store sales. The increase in new store sales reflected the opening of 38 new stores, net of closures and relocations, since December 31, 2006. Same store sales decreased 7.0% for fiscal 2008 compared with fiscal 2007.

Our net sales were also negatively impacted by weakness in the performance of the roller shoe product category, which declined $10.3 million from the prior year.

Store count at the end of fiscal 2008 was 381 versus 363 at the end of fiscal 2007. We opened 18 new stores, net of closures and relocations, in fiscal 2008, and opened 20 new stores, net of closures and relocations, in fiscal 2007.

Gross Profit. Gross profit decreased by $23.6 million, or 7.7%, to $285.5 million, or 33.0% of net sales, in fiscal 2008 from $309.1 million, or 34.4% of net sales, in fiscal 2007. The decrease in gross profit was primarily attributable to the following:

Net sales decreased by $33.6 million in fiscal 2008 compared to the prior year.

Store occupancy costs for fiscal 2008 increased by $5.9 million, or 95 basis points, due mainly to new store openings, a second quarter pre-tax charge of $1.5 million to correct an error in our previously recognized straight-line rent expense, substantially all of which related to prior periods and accumulated over a period of 15 years, and higher depreciation.

Merchandise margins for fiscal 2008 decreased by approximately 25 basis points versus fiscal 2007, primarily due to lower margins for winter-related products, roller shoes and certain other product categories and slightly more aggressive promotional pricing in an effort to drive sales and reduce merchandise inventory. Additionally, in fiscal 2008 we experienced increasing inflation in the purchase cost of our products.

Selling and Administrative Expense. Selling and administrative expense increased by $1.7 million, or 0.7%, to $257.9 million, or 29.8% of net sales, in fiscal 2008 from $256.2 million, or 28.5% of net sales, in fiscal 2007. The increase in selling and administrative expense was primarily attributable to the following:

Store-related expense, excluding occupancy, increased by $4.7 million, or 123 basis points, due primarily to higher labor and operating costs to support the increase in store count.

Administrative expense for fiscal 2008 decreased by $1.7 million, primarily reflecting reductions in employee compensation and benefits-related costs.

Advertising expense for fiscal 2008 decreased by $1.3 million as a result of more selective promotional activities.

The increase in selling and administrative expense as a percentage of net sales for fiscal 2008 compared to fiscal 2007 was due in part to softer sales conditions in fiscal 2008.

Interest Expense. Interest expense decreased by $1.4 million, or 21.4%, to $5.2 million in fiscal 2008 from $6.6 million in fiscal 2007. The decrease in interest expense primarily reflected a reduction in average interest rates of 215 basis points to 4.5% during fiscal 2008, offset by higher average debt levels of approximately $14.1 million in fiscal 2008.

Income Taxes. The provision for income taxes was $8.5 million for fiscal 2008 compared with $18.3 million for fiscal 2007, reflecting our lower pre-tax income. Our effective tax rate was 37.9% for fiscal 2008 compared with 39.4% for fiscal 2007. Our lower effective tax rate for fiscal 2008 compared to the prior year primarily reflects the impact of lower pre-tax income on income tax credits for fiscal 2008.

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 flow from operations and borrowings from our revolving credit facility. We believe our cash on hand, future funds from operations and borrowings from our revolving credit facility will be sufficient to fund our cash requirements for at least the next twelve months. There is no assurance, however, that we will be able to generate sufficient cash flow or that we will be able to maintain our ability to borrow under our revolving credit facility.

We ended fiscal 2009 with $5.8 million of cash and cash equivalents compared with $9.1 million in fiscal 2008. We reduced our long-term debt by $41.5 million, or 43%, during fiscal 2009 to $55.0 million from $96.5 million at the end of fiscal 2008. The following table summarizes our cash flows from operating, investing and financing activities for each of the past three fiscal years:

	Fiscal Year		
	2009	2008	2007
	(Dollars in thousands)		
Total cash provided by (used in):			
Operating activities	$ 54,087	$ 39,503	$ 24,664
Investing activities	(5,764)	(20,400)	(20,769)

Financing activities	(51,616)	(19,786)	701
Net (decrease) increase in cash and cash equivalents	$ (3,293)	$ (683)	$ 4,596

The seasonality of our business historically provides greater cash flow from operations during the holiday and winter selling season, with fourth fiscal quarter net sales traditionally generating the strongest profits of our fiscal year. Typically, we use operating cash flow and borrowings under our revolving credit facility to fund inventory increases in anticipation of the holidays and our inventory levels are at their highest in the months leading up to Christmas. As holiday sales significantly reduce inventory levels, this reduction, combined with net income, historically provides us with strong cash flow from operations at the end of our fiscal year.

Our improved earnings contributed to higher cash flow from operations for fiscal 2009 compared to fiscal 2008, which enabled us to continue to reduce our long-term debt levels year over year. Because of the economic recession, in fiscal 2009 we significantly reduced our capital spending for new store openings from historical levels. For fiscal 2008 we purchased lower quantities of inventory during the year to reduce our overall inventory levels in anticipation of weaker consumer demand resulting from the economic recession. For fiscal 2007 we purchased larger quantities of inventory earlier in the year to insure adequate product availability for the holiday and winter selling season. The higher inventory levels and timing of purchases combined with lower than anticipated sales in the fourth quarter of fiscal 2007 resulted in reduced operating cash flow for the year.

Operating Activities. Net cash provided by operating activities for fiscal 2009, 2008 and 2007 was $54.1 million, $39.5 million and $24.7 million, respectively. The increase in cash provided by operating activities for fiscal 2009 compared to fiscal 2008 primarily reflects higher net income for the year, lower receivables due to the timing of settlement of credit card receivables and increases in accrued expenses, offset by a reduced cash flow benefit resulting from lowered inventory levels. The increase in cash provided by operating activities for fiscal 2008 compared to fiscal 2007 primarily reflects lower levels of merchandise inventory purchases to better align our inventory balances with weaker sales resulting from the economic recession, offset by lower net income in fiscal 2008, reductions in accounts payable related to reduced inventory purchases and reduced accrued expenses primarily related to employee compensation and benefits and advertising expense.

Investing Activities. Net cash used in investing activities for fiscal 2009, 2008 and 2007 was $5.8 million, $20.4 million and $20.8 million, respectively. Capital expenditures, excluding non-cash acquisitions, represented substantially all of the net cash used in investing activities for each period. Capital expenditures were lower in fiscal 2009 due to substantially fewer new store openings. Our capital spending is primarily for new store openings, store-related remodeling, distribution center and corporate headquarters costs and computer hardware and software purchases. Capital expenditures by category for each of the last three fiscal years are as follows:

	Fiscal Year		
	2009	2008	2007
	(Dollars in thousands)		
New stores	$ 2,227	$ 10,344	$ 12,254
Store-related remodels	2,575	4,744	3,636
Distribution center	384	708	2,557
Computer hardware, software and other	578	4,651	2,321
Total	$ 5,764	$ 20,447	$ 20,769

Capital spending in fiscal 2009 was lower than prior years as we conserved capital in response to the economic recession. Our capital expenditures for new stores included three new stores in fiscal 2009; 18 new stores, net of closures and relocations, in fiscal 2008; and 20 new stores, net of closures and relocations, in fiscal 2007. Capital expenditures in fiscal 2009, 2008 and 2007 included amounts related to the implementation of computer system improvements and enhanced security measures to support our infrastructure.

Financing Activities. Net cash used in financing activities for fiscal 2009 and 2008 was $51.6 million and $19.8 million, respectively, while net cash provided by financing activities for fiscal 2007 was $0.7 million. For fiscal 2009, cash provided by operating activities was used to pay down a significant portion of borrowings under our revolving credit facility. We reduced our quarterly dividend payments to $0.05 per share and did not repurchase stock

in fiscal 2009, in order to preserve capital during this economic recession. For fiscal 2008, cash provided by operating activities was used to pay down borrowings under our revolving credit facility, repurchase stock and pay dividends. For fiscal 2007, cash provided by borrowings under our revolving credit facility was used primarily to repurchase stock, pay dividends and fund working capital.

As of January 3, 2010, we had revolving credit borrowings of $55.0 million and letter of credit commitments of $2.7 million outstanding under our financing agreement. These balances compare to borrowings of $96.5 million and letter of credit commitments of $3.0 million outstanding under our financing agreement as of December 28, 2008.

Our revolving credit facility balances have historically increased from the end of the first quarter to the end of the second quarter and from the end of the third quarter to the week of Thanksgiving. The historical increases in our revolving credit facility balances reflect the build-up of inventory in anticipation of our summer and winter selling seasons. Revolving credit facility balances typically fall from the week of Thanksgiving to the end of the fourth quarter, reflecting inventory sales during the holiday and winter selling season. Our revolving credit borrowings in fiscal 2009 were consistently below fiscal 2008 due primarily to improved operating results and substantially reduced cash used for new store openings in fiscal 2009. In the fourth quarter of fiscal 2008, our revolving credit facility balance declined in line with our historical trends after increasing in the fourth quarter of fiscal 2007 due to lower than anticipated sales levels.

Quarterly dividend payments of $0.09 per share were paid in fiscal 2007 and 2008. Due to the economic recession, in the first quarter of fiscal 2009 our Board of Directors reduced the quarterly cash dividend to $0.05 per share of outstanding common stock for an annual rate of $0.20 per share, and quarterly dividend payments of $0.05 per share were paid in fiscal 2009. This decision was consistent with our objective to utilize capital to maintain a healthy financial condition during the economic recession. In the first 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 March 22, 2010 to stockholders of record as of March 8, 2010.

Periodically, we repurchase our common stock in the open market pursuant to programs approved by our Board of Directors. Depending on business conditions, we may repurchase our common stock for a variety of reasons, including the current market price of our stock, to offset dilution related to equity-based compensation plans and to optimize our capital structure.

During the second quarter of fiscal 2006, our Board of Directors authorized a share repurchase program for the purchase of up to $15.0 million of our common stock. Under this program, we repurchased 672,433 and 64,310 shares of our common stock for $13.7 million and $1.3 million during fiscal 2007 and fiscal 2006, respectively, at which time the program was completed.

During the fourth quarter of fiscal 2007, our Board of Directors authorized an additional share repurchase program for the purchase of up to $20.0 million of our common stock. Under the authorization, we may purchase shares from time to time in the open market or in privately negotiated transactions in compliance with the applicable rules and regulations of the Securities and Exchange Commission (SEC). However, the timing and amount of such purchases, if any, would be at the discretion of management, and would depend upon market conditions and other considerations. In light of the economic climate, we did not repurchase any shares of our common stock under this program during fiscal 2009. We repurchased 600,999 and 31,343 shares of our common stock under this program for $5.3 million and $0.5 million in fiscal 2008 and fiscal 2007, respectively.

Since the inception of our initial share repurchase program in May 2006 through January 3, 2010, we have repurchased a total of 1,369,085 shares for $20.8 million, leaving a total of $14.2 million available for share repurchases under our current share repurchase program. We expect limited, if any, share repurchases in fiscal 2010.

Our dividend payments and stock repurchases are generally funded by distributions from our subsidiary, Big 5 Corp. Generally, as long as there is no default or event of default under our financing agreement, Big 5 Corp. may make distributions to us of up to $15.0 million per year (and up to $5.0 million per quarter) for any purpose (including dividend payments or stock repurchases) and may make additional distributions for the purpose of paying our dividends or repurchasing our common stock if Big 5 Corp. will have post-dividend liquidity (as defined in the financing agreement) of at least $30 million.

Financing Agreement. On December 15, 2004, we entered into a $160.0 million financing agreement with The CIT Group/Business Credit, Inc. (CIT) and a syndicate of other lenders. On May 24, 2006, we amended the financing agreement to, among other things, increase the line of credit to $175.0 million. In 2007 and 2008 the agreement was further amended to, among other things, adjust various definitions relating to borrowing availability under the agreement and revise certain covenants, including the fixed-charge coverage ratio requirement.

The initial termination date of the revolving credit facility under the financing agreement is March 20, 2011 (subject to annual extensions thereafter). The revolving credit facility may be terminated by the lenders by giving at least 90 days prior written notice before any anniversary date, commencing with its anniversary date on March 20,

2011. We may terminate the revolving credit facility by giving at least 30 days prior written notice, provided that if we terminate prior to March 20, 2011, we must pay an early termination fee. Unless it is terminated, the revolving credit facility will continue on an annual basis from anniversary date to anniversary date beginning on March 21, 2011.

Under the revolving credit facility, our maximum eligible borrowing capacity is limited to 72.16% of the aggregate value of eligible inventory during October, November and December and 66.38% during the remainder of the year. An annual fee of 0.325%, payable monthly, is assessed on the unused portion of the revolving credit facility. As of January 3, 2010 and December 28, 2008, our total remaining borrowing capacity under the revolving credit facility, after subtracting letters of credit, was $94.3 million and $69.1 million, respectively.

The revolving credit facility bears interest at various rates based on our overall borrowings, with a floor of LIBOR plus 1.00% or the JP Morgan Chase Bank prime lending rate and a ceiling of LIBOR plus 1.50% or the JP Morgan Chase Bank prime lending rate.

The following table provides information about borrowings under our revolving credit facility as of and for the periods indicated:

	Fiscal Year	
	2009	2008
	(Dollars in thousands)	
Fiscal year-end balance	$ 54,955	$ 96,499
Average interest rate	2.22%	4.49%
Maximum outstanding during the year	$ 114,543	$ 144,825
Average outstanding during the year	$ 83,627	$ 107,475

Our financing agreement is secured by a first priority security interest in substantially all of our assets. Our financing agreement contains various financial and other covenants, including covenants that require us to maintain a fixed-charge coverage ratio of not less than 1.0 to 1.0 in certain circumstances, restrict our ability to incur indebtedness or to create various liens and restrict the amount of capital expenditures that we may incur. Our financing agreement also restricts our ability to engage in mergers or acquisitions, sell assets, repurchase our stock or pay dividends. We may repurchase our stock or declare a dividend only if, among other things, no default or event of default exists on the stock repurchase date or dividend declaration date, as applicable, and a default is not expected to result from the repurchase of stock or payment of the dividend and certain other criteria are met, as more fully described in Part II, Item 5, *Market For Registrant s Common Equity, Related Stockholder Matters And Issuer Purchases Of Equity Securities*, of this Annual Report on Form 10-K. The requirements are described in more detail in the financing agreement and the amendments thereto, which have been filed as exhibits to our previous filings with the SEC. We are in compliance with all financial covenants under our financing agreement. If we fail to make any required payment under our financing agreement or if we otherwise default under this instrument, the lenders may (i) require us to agree to less favorable interest rates and other terms under the agreement in exchange for a waiver of any such default or (ii) accelerate our debt under this agreement. This acceleration could also result in the acceleration of other indebtedness that we may have outstanding at that time.

During the second half of fiscal 2010, we intend to negotiate a new revolving credit financing agreement to replace our current financing agreement which has an initial termination date of March 20, 2011. We expect that our interest expense and amortization associated with financing fees will be higher in fiscal 2011 as a result of entering into a new financing agreement. Under our current financing agreement, the LIBOR base borrowing option includes an interest

rate range of LIBOR plus 1.00% to 1.50%. Based on current market conditions, under a new revolving credit financing agreement the interest rate range is expected to increase by approximately 150 basis points or more. In addition, beginning in the first quarter of 2010, our outstanding debt associated with our existing revolving credit facility will be classified as a current liability.

Future Capital Requirements. We had cash on hand of $5.8 million at January 3, 2010. We expect capital expenditures for fiscal 2010, excluding non-cash acquisitions, to range from approximately $14.0 million to $17.0 million, primarily to fund the opening of new stores, store-related remodeling, distribution center equipment and computer hardware and software purchases. In light of the economic recession experienced in fiscal 2007 and fiscal 2008, we slowed our store expansion efforts substantially in fiscal 2009 in comparison to previous years. We anticipate opening between 10 and 15 net new stores in fiscal 2010 compared to three net new stores in fiscal 2009.

In the first quarter of fiscal 2009, our Board of Directors reduced our quarterly cash dividend to $0.05 per share of outstanding common stock, for an annual rate of $0.20 per share. In the first 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 March 22, 2010 to stockholders of record as of March 8, 2010.

As of February 26, 2010, a total of $14.2 million remained available for share repurchases under our share repurchase program. We consider several factors in determining when and if we make share repurchases including, among other things, our alternative cash requirements, existing business conditions and the market price of our stock. Due to the economic recession, we discontinued share repurchases in fiscal 2009 and expect limited, if any, share repurchases in fiscal 2010.

We believe we will be able to fund our cash requirements, for at least the next twelve months, from cash on hand, operating cash flows and borrowings from our revolving credit facility. However, our ability to satisfy our 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 flow or that we will be able to maintain our ability to borrow under our revolving credit facility.

If we are unable to generate sufficient cash flow from operations to meet our obligations and commitments, or if we are unable to maintain our ability to borrow sufficient amounts under our existing revolving credit facility, or successfully negotiate and enter into a new revolving credit facility to replace our current facility, which has an initial termination date of March 20, 2011, 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). A summary of our operating lease obligations and letter of credit commitments by fiscal year is included in the table below. Additional information regarding our operating leases is available in Item 2, *Properties* and Note 6, *Lease Commitments*, of the notes to consolidated financial statements included in Item 8, *Financial Statements and Supplementary Data*, of this Annual Report on Form 10-K.

Our future obligations and commitments as of January 3, 2010, include the following:

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	After 5 Years
	(In thousands)				
Capital lease obligations	$ 4,557	$ 2,107	$ 2,103	$ 347	$
Lease commitments:					
Operating lease commitments	311,180	58,470	99,923	78,252	74,535
Other occupancy costs	67,617	12,528	21,647	17,036	16,406
Other liabilities	8,713	2,455	2,818	1,528	1,912
Revolving credit facility	54,955		54,955		
Letters of credit	2,749	2,749			

Total	$ 449,771	$ 78,309	$ 181,446	$ 97,163	$ 92,853

Capital lease obligations, which include imputed interest, consist principally of leases for our distribution center delivery tractors and management information systems hardware. Payments for these lease obligations are provided by cash flows generated from operations or through borrowings from our revolving credit facility.

Operating lease commitments consist principally of leases for our retail store facilities, distribution center and corporate office. These 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.

Other 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 workers compensation claims, a contractual obligation for the surviving spouse of Robert W. Miller, our co-founder, and an asset retirement obligation related to the removal of leasehold improvements from our stores upon termination of our store leases.

Periodic interest payments on the revolving credit facility are not included in the preceding table because interest expense is based on variable indices, both LIBOR and the JP Morgan Chase Bank prime lending rates, and the balance of our revolving credit facility fluctuates daily depending on operating, investing and financing cash flows. Assuming no changes in our revolving credit facility debt or interest rates as of the fiscal 2009 year-end, our projected annual interest payments would be approximately $1.1 million.

Letters of credit are related primarily to importing merchandise and funding insurance program liabilities.

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

Our critical accounting estimates are included in our significant accounting policies as described in Note 2 of the consolidated financial statements included in Item 8, *Financial Statements and Supplementary Data*, of this Annual Report on Form 10-K. Those consolidated financial statements were prepared in accordance with GAAP. Critical accounting estimates are those that we believe are most important to the portrayal of our financial condition and results of operations. The preparation of our consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expense. Our estimates are evaluated on an ongoing basis and drawn from historical experience, current trends and other factors that management believes to be relevant at the time our consolidated financial statements are prepared. Actual results may differ from our estimates. Management believes that the following accounting estimates reflect the more significant judgments and estimates we use in preparing our consolidated financial statements.

Valuation of Merchandise Inventories

Our 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, 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 our distribution center.

We record valuation reserves on a quarterly basis 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. These reserves are estimates of a reduction in value to reflect inventory valuation at the lower of cost or market. The reserve for merchandise returns is based upon the determination of the historical net realizable value of products sold from our returned goods inventory or returned to vendors for credit. Our reserve for merchandise returns includes amounts for returned product on-hand as well as for new merchandise on-hand that we estimate will ultimately become returned goods inventory after being sold, based on historical return rates. Factors included in determining slow-moving or obsolescence reserve estimates include current and anticipated demand or customer preferences, merchandise aging, seasonal trends and decisions to discontinue certain products. Because of our merchandise mix, we have not historically experienced significant occurrences of obsolescence. Our inventory valuation reserves for

merchandise returns, slow-moving or obsolescent merchandise and for lower of cost or market provisions totaled $2.6 million and $2.5 million as of January 3, 2010 and December 28, 2008, respectively, representing approximately 1% of our merchandise inventory for both periods.

Inventory shrinkage is accrued as a percentage of merchandise sales based on historical inventory shrinkage trends. We perform physical inventories at each of our stores at least once per year and cycle count inventories encompassing all inventory items at least once every quarter at our distribution center. The reserve for inventory shrinkage represents an estimate for inventory shrinkage for each store since the last physical inventory date through

the reporting date. Inventory shrinkage can be impacted by internal factors such as the level of investment in employee training and loss prevention and external factors such as the health of the overall economy, and shrink reserve estimates can vary from actual results. Our reserve for inventory shrinkage was $2.0 million and $1.9 million as of January 3, 2010 and December 28, 2008, respectively, representing approximately 1% of our merchandise inventory for both periods.

A 10% change in our inventory reserves estimate in total at January 3, 2010, would result in a change in reserves of approximately $0.5 million and a change in pre-tax earnings by the same amount. Our 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 our expectations. At this time, we do not believe that there is a reasonable likelihood that there will be a material change in the future estimates or assumptions that we use to calculate our inventory reserves.

Valuation of Long-Lived Assets

We review our long-lived assets for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Long-lived assets are reviewed for recoverability at the lowest level in which there are identifiable cash flows, usually at the store level. We determine which stores to review based upon their profitability. Each store typically requires investments of approximately $0.5 million in long-lived assets to be held and used, subject to recoverability testing. The carrying amount of a long-lived asset is not considered recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use of the asset. If the asset is determined not to be recoverable, then it is considered to be impaired and the impairment to be recognized is the amount by which the carrying amount of the asset exceeds the fair value of the asset, determined using discounted cash flow valuation techniques, as defined in the impairment provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) No. 360, *Property, Plant, and Equipment*.

We determine the sum of the undiscounted cash flows expected to result from the use of an asset by projecting future revenue and operating expense for each store under consideration for impairment. The estimates of future cash flows involve management judgment and are based upon assumptions about expected future operating performance. Assumptions used in these forecasts are consistent with internal planning, and include assumptions about sales, margins, operating expense and advertising expense in relation to the current economic environment and our future expectations, competitive factors in our various markets and inflation. The actual cash flows could differ from management s estimates due to changes in business conditions, operating performance and economic conditions.

Our evaluation resulted in no long-lived asset impairment charges during fiscal 2009 and 2008, while fiscal 2007 resulted in long-lived asset impairment charges that were not material.

A 10% change in the sum of our undiscounted cash flow estimates resulting from different assumptions used at January 3, 2010, would not result in a change in long-lived asset impairment charges for fiscal 2009.

Self-Insurance Liabilities

We maintain self-insurance programs for our estimated commercial general liability risk and, in certain states, our estimated workers compensation liability risk. In addition, effective January 1, 2010, we have a self-insurance program for a portion of our employee medical benefits. Under these programs, we maintain insurance coverage for losses in excess of specified per-occurrence amounts. Estimated costs under the workers compensation program, including incurred but not reported claims, are recorded as expense based upon historical experience, trends of paid

and incurred claims, and other actuarial assumptions. If actual claims trends under these programs, including the severity or frequency of claims, differ from our estimates, our financial results may be significantly impacted. Our estimated self-insurance liabilities are classified in our balance sheet as accrued expenses or other long-term liabilities based upon whether they are expected to be paid during or beyond our normal operating cycle of

12 months from the date of our consolidated financial statements. As of January 3, 2010 and December 28, 2008, our self-insurance liabilities totaled $6.8 million and $7.0 million, respectively.

A 10% change in our estimated self-insurance liabilities estimate as of January 3, 2010, would result in a change in our liability of approximately $0.7 million and a change in pre-tax earnings by the same amount.

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.

We do not believe that inflation had a material impact on our operating results for the three preceding fiscal years. In fiscal 2008 we experienced increasing inflation in the purchase cost of certain products, which continued into the first half of fiscal 2009. During the last half of fiscal 2009, the trend of inflation in product purchase costs generally appeared to stabilize. If we are unable to adjust our selling prices for purchase cost increases then our merchandise margins will decline, which could adversely impact our operating results.

Recently Issued Accounting Guidance

See Note 2 to consolidated financial statements included in Item 8, *Financial Statements and Supplementary Data*, of this Annual Report on Form 10-K.

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 , expect 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 current and new 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 I, Item 1A, *Risk Factors*, in this report. 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.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to risks resulting from interest rate fluctuations since interest on our borrowings under our revolving credit facility is based on variable rates. We enter into borrowings under our revolving 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, either LIBOR or the JP Morgan Chase Bank prime rate. 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 LIBOR or JP Morgan Chase Bank prime rate was to change 1.0% as compared to the rate at January 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 revolving credit facility at January 3, 2010.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and the supplementary financial information required by this Item and included in this Annual Report on Form 10-K are listed in the Index to consolidated financial statements beginning on page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain a system of disclosure controls and procedures that are designed to provide reasonable assurance that information which is required to be timely disclosed is accumulated and communicated to our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), in a timely fashion. We conducted an evaluation, under the supervision and with the participation of our CEO and 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 January 3, 2010. Based on such evaluation, our CEO and CFO have concluded that, as of January 3, 2010, 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.

Management s Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and disposition of assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles in the United States of America (GAAP), and that receipts and expenditures are being made only in accordance with the authorization of our management and directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projection of any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an assessment of the effectiveness of our internal control over financial reporting as of January 3, 2010, based upon the *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has concluded that, as of January 3, 2010, we maintained effective internal control over financial reporting. The attestation report issued by Deloitte & Touche LLP, our independent registered public accounting firm, on our internal control over financial reporting is included herein.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the internal control over financial reporting of Big 5 Sporting Goods Corporation and subsidiaries (the Company) as of January 3, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying *Management s Annual Report on Internal Control Over Financial Reporting.* Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 3, 2010 based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended January 3, 2010 of the Company and our report dated March 3, 2010 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ Deloitte & Touche LLP

Los Angeles, California
March 3, 2010

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item has been omitted and will be incorporated herein by reference, when filed, to our Proxy Statement, which is expected to be filed not later than 120 days after the end of our fiscal year ended January 3, 2010.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item has been omitted and will be incorporated herein by reference, when filed, to our Proxy Statement, which is expected to be filed not later than 120 days after the end of our fiscal year ended January 3, 2010.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item has been omitted and will be incorporated herein by reference, when filed, to our Proxy Statement, which is expected to be filed not later than 120 days after the end of our fiscal year ended January 3, 2010.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item has been omitted and will be incorporated herein by reference, when filed, to our Proxy Statement, which is expected to be filed not later than 120 days after the end of our fiscal year ended January 3, 2010.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item has been omitted and will be incorporated herein by reference, when filed, to our Proxy Statement, which is expected to be filed not later than 120 days after the end of our fiscal year ended January 3, 2010.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this report:

(1) Financial Statements.

See Index to Consolidated Financial Statements on page F-1 hereof.

(2) Financial Statement Schedule.

See Index to Consolidated Financial Statements on page F-1 hereof.

(3) Exhibits.

See Index to Exhibits on page E-1 hereof immediately following the financial statements, which is hereby incorporated by reference into this Item 15. Certain exhibits are incorporated by reference from documents previously filed by the Company with the SEC as required by Item 601 of Regulation S-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: March 3, 2010

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Signatures	Title	Date
/s/ Steven G. Miller Steven G. Miller	Chairman of the Board of Directors, President, Chief Executive Officer and Director of the Company (Principal Executive Officer)	March 3, 2010
/s/ Barry D. Emerson Barry D. Emerson	Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	March 3, 2010
/s/ Sandra N. Bane Sandra N. Bane	Director of the Company	March 3, 2010
/s/ G. Michael Brown G. Michael Brown	Director of the Company	March 3, 2010
/s/ Jennifer Holden Dunbar Jennifer Holden Dunbar	Director of the Company	March 3, 2010
/s/ David R. Jessick David R. Jessick	Director of the Company	March 3, 2010
/s/ Michael D. Miller	Director of the Company	March 3, 2010

Michael D. Miller

BIG 5 SPORTING GOODS CORPORATION

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Consolidated Financial Statement Schedule:	**Schedule**
Valuation and Qualifying Accounts as of January 3, 2010, December 28, 2008 and December 30, 2007	II

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Big 5 Sporting Goods Corporation
El Segundo, California:

We have audited the accompanying consolidated balance sheets of Big 5 Sporting Goods Corporation and subsidiaries (the Company) as of January 3, 2010 and December 28, 2008, and the related consolidated statements of operations, stockholders equity, and cash flows for the years ended January 3, 2010, December 28, 2008 and December 30, 2007. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Big 5 Sporting Goods Corporation and subsidiaries as of January 3, 2010 and December 28, 2008, and the results of their operations and their cash flows for the years ended January 3, 2010, December 28, 2008 and December 30, 2007, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of January 3, 2010, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 3, 2010 expressed an unqualified opinion on the Company s internal control over financial reporting.

/s/ Deloitte & Touche LLP

Los Angeles, California
March 3, 2010

BIG 5 SPORTING GOODS CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

	January 3, 2010	December 28, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,765	$ 9,058
Accounts receivable, net of allowances of $223 and $305, respectively	13,398	16,611
Merchandise inventories, net	230,911	232,962
Prepaid expenses	9,683	8,201
Deferred income taxes	7,723	8,333
Total current assets	267,480	275,165
Property and equipment, net	81,817	94,241
Deferred income taxes	11,327	13,363
Other assets, net of accumulated amortization of $346 and $293, respectively	1,065	1,155
Goodwill	4,433	4,433
Total assets	$ 366,122	$ 388,357
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 85,721	$ 88,079
Accrued expenses	59,314	55,862
Current portion of capital lease obligations	1,904	1,942
Total current liabilities	146,939	145,883
Deferred rent, less current portion	23,832	24,960
Capital lease obligations, less current portion	2,278	2,948
Long-term debt	54,955	96,499
Other long-term liabilities	6,257	6,267
Total liabilities	234,261	276,557
Commitments and contingencies		
Stockholders equity:		
Common stock, $0.01 par value, authorized 50,000,000 shares; issued 23,050,061 and 23,004,087 shares, respectively; outstanding 21,566,766 and 21,520,792 shares, respectively	230	230
Additional paid-in capital	95,259	92,704
Retained earnings	57,738	40,232
Less: Treasury stock, at cost; 1,483,295 and 1,483,295 shares, respectively	(21,366)	(21,366)

Total stockholders equity	131,861	111,800
Total liabilities and stockholders equity	$ 366,122	$ 388,357

See accompanying notes to consolidated financial statements.

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

	Year Ended		
	January 3, 2010	**December 28, 2008**	**December 30, 2007**
Net sales	$ 895,542	$ 864,650	$ 898,292
Cost of sales	597,792	579,165	589,150
Gross profit	297,750	285,485	309,142
Selling and administrative expense	260,068	257,883	256,180
Operating income	37,682	27,602	52,962
Interest expense	2,465	5,198	6,614
Income before income taxes	35,217	22,404	46,348
Income taxes	13,406	8,500	18,257
Net income	$ 21,811	$ 13,904	$ 28,091
Earnings per share:			
Basic	$ 1.02	$ 0.64	$ 1.25
Diluted	$ 1.01	$ 0.64	$ 1.25
Dividends per share	$ 0.20	$ 0.36	$ 0.36
Weighted-average shares of common stock outstanding:			
Basic	21,434	21,608	22,465
Diluted	21,657	21,619	22,559

See accompanying notes to consolidated financial statements.

BIG 5 SPORTING GOODS CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
(In thousands, except share amounts)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock, At Cost	Total
Balance at December 31, 2006	22,670,367	$ 228	$ 87,956	$ 14,126	$ (1,850)	$ 100,460
Net income				28,091		28,091
Dividends on common stock ($0.36 per share)				(8,080)		(8,080)
Exercise of stock options	46,100		503			503
Share-based compensation			2,208			2,208
Tax benefit from share-based awards activity			184			184
Purchases of treasury stock	(703,776)				(14,211)	(14,211)
Balance at December 30, 2007	22,012,691	228	90,851	34,137	(16,061)	109,155
Net income				13,904		13,904
Dividends on common stock ($0.36 per share)				(7,809)		(7,809)
Issuance of nonvested share awards	109,100	2	(2)			
Share-based compensation			1,898			1,898
Tax deficiency from share-based awards activity			(43)			(43)
Purchases of treasury stock	(600,999)				(5,305)	(5,305)
Balance at December 28, 2008	21,520,792	230	92,704	40,232	(21,366)	111,800
Net income				21,811		21,811
Dividends on common stock ($0.20 per share)				(4,305)		(4,305)
Issuance of nonvested share awards	12,000					
Exercise of stock options	42,775		425			425
Share-based compensation			2,139			2,139
Tax benefit from share-based awards activity			38			38
Forfeiture of nonvested share awards	(1,100)					
Retirement of common stock for payment of withholding tax	(7,701)		(47)			(47)
Balance at January 3, 2010	21,566,766	$ 230	$ 95,259	$ 57,738	$ (21,366)	$ 131,861

See accompanying notes to consolidated financial statements.

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

	Year Ended		
	January 3, 2010	**December 28, 2008**	**December 30, 2007**
Cash flows from operating activities:			
Net income	$ 21,811	$ 13,904	$ 28,091
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	19,400	19,135	17,687
Share-based compensation	2,139	1,898	2,208
Tax benefit from share-based awards activity			184
Excess tax benefit related to share-based awards	(43)		(155)
Amortization of deferred finance charges	53	52	49
Deferred income taxes	2,684	(865)	(3,691)
(Gain) loss on disposal of property and equipment	(59)	33	
Changes in operating assets and liabilities:			
Accounts receivable, net	3,213	(1,684)	(1,781)
Merchandise inventories, net	2,051	19,672	(23,707)
Prepaid expenses and other assets	(1,441)	(1,285)	2,802
Accounts payable	1,564	(6,972)	(47)
Accrued expenses and other long-term liabilities	2,715	(4,385)	3,024
Net cash provided by operating activities	54,087	39,503	24,664
Cash flows from investing activities:			
Purchases of property and equipment	(5,764)	(20,447)	(20,769)
Proceeds from disposal of property and equipment		47	
Net cash used in investing activities	(5,764)	(20,400)	(20,769)
Cash flows from financing activities:			
Net principal (payments) borrowings under revolving credit facility and book overdraft	(45,458)	(4,949)	24,437
Principal payments under capital lease obligations	(2,284)	(1,751)	(2,103)
Proceeds from exercise of stock options	425		503
Excess tax benefit related to share-based awards	43		155
Purchases of treasury stock		(5,305)	(14,211)
Tax withholding payments for share-based compensation	(47)		
Dividends paid	(4,295)	(7,781)	(8,080)
Net cash (used in) provided by financing activities	(51,616)	(19,786)	701
Net (decrease) increase in cash equivalents	(3,293)	(683)	4,596
Cash and cash equivalents at beginning of year	9,058	9,741	5,145

Cash and cash equivalents at end of year	$ 5,765	$ 9,058	$ 9,741
Supplemental disclosures of non-cash investing and financing activities:			
Property and equipment acquired under capital leases	$ 1,930	$ 2,825	$ 1,066
Property and equipment purchases accrued	$ 310	$ 634	$ 3,694
Stock awards vested and issued to employees	$ 182	$	$
Supplemental disclosures of cash flow information:			
Interest paid	$ 2,706	$ 6,082	$ 6,725
Income taxes paid	$ 11,231	$ 11,522	$ 22,439

See accompanying notes to consolidated financial statements.

BIG 5 SPORTING GOODS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Description of Business

The accompanying consolidated financial statements as of January 3, 2010 and December 28, 2008 and for the years ended January 3, 2010 (fiscal 2009), December 28, 2008 (fiscal 2008) and December 30, 2007 (fiscal 2007), represent the financial position, results of operations and cash flows of Big 5 Sporting Goods Corporation (the Company) and its wholly owned subsidiary, Big 5 Corp. and Big 5 Corp. s wholly owned subsidiary, Big 5 Services Corp. The Company operates as one business segment, as a sporting goods retailer under the Big 5 Sporting Goods name carrying a full-line product offering, operating 384 stores at January 3, 2010 in California, Washington, Arizona, Oregon, Texas, New Mexico, Nevada, Utah, Idaho, Colorado and Oklahoma.

(2) Summary of Significant Accounting Policies

Consolidation

The accompanying consolidated 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 2009 included 53 weeks. Fiscal 2008 and 2007 each included 52 weeks.

Recently Issued Accounting Guidance

In June 2009, the Financial Accounting Standards Board (FASB) issued its final Statement of Financial Accounting Standards (SFAS) No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162*. SFAS No. 168 established the FASB Accounting Standards Codification (ASC) as the single source of authoritative generally accepted accounting principles in the United States of America (GAAP) to be applied by nongovernmental entities in the preparation of financial statements. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All guidance in the ASC carries an equal level of authority. The ASC supersedes all previously existing non-SEC accounting and reporting standards. The ASC simplifies user access to all authoritative GAAP by reorganizing previously issued GAAP pronouncements into approximately 90 accounting topics within a consistent structure, without creating new accounting and reporting guidance. The ASC became effective for financial statements issued for interim and annual periods ending after September 15, 2009; accordingly, the Company adopted the ASC in the third quarter of fiscal 2009. Following SFAS No. 168, the FASB will not issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts; instead, it will issue Accounting Standards Updates. The FASB will not consider Accounting Standards Updates as authoritative in their own right; these updates will serve only to update the ASC, provide background information about the guidance, and provide the bases for conclusions on the change(s) in the ASC. In the discussion that follows, the Company will refer to ASC citations that relate to ASC Topics and their descriptive titles, as appropriate, and will no longer refer to citations that relate to accounting pronouncements superseded by the ASC. The adoption of the ASC had no impact on the Company s consolidated financial statements.

In May 2009, the FASB issued ASC 855, *Subsequent Events*, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, ASC 855 sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. ASC 855 is effective for

BIG 5 SPORTING GOODS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

interim or annual financial periods ending after June 15, 2009, and shall be applied prospectively. Accordingly, the Company adopted ASC 855 in the second quarter of fiscal 2009. The adoption of ASC 855 had no impact on the Company s consolidated financial statements.

Use of Estimates

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenue and expense during the reporting period to prepare these consolidated financial statements in conformity with GAAP. Certain items subject to such estimates and assumptions include the carrying amount of property and equipment, and goodwill; valuation allowances for receivables, sales returns, inventories and deferred income tax assets; estimates related to gift card breakage; estimates related to the valuation of stock options; 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.

Segment Reporting

Given the economic characteristics of the Company s store formats, the similar nature of the products sold, the type of customer and the method of distribution, the Company operates as one reportable segment as defined by ASC 280, *Segment Reporting*.

The approximate net sales attributable to hard goods, athletic and sport apparel, athletic and sport footwear and other for the periods presented are set forth as follows:

	Fiscal Year		
	2009	2008	2007
	(In thousands)		
Hard goods	$ 487,178	$ 461,489	$ 478,384
Athletic and sport apparel	145,325	149,480	150,367
Athletic and sport footwear	259,989	251,212	266,278
Other sales	3,050	2,469	3,263
Net sales	$ 895,542	$ 864,650	$ 898,292

Adjustments

As previously disclosed, in the second quarter of fiscal 2008 the Company recorded a nonrecurring pre-tax charge of $1.5 million to correct an error in its previously recognized straight-line rent expense, substantially all of which related to prior periods and accumulated over a period of 15 years. This charge reduced net income in fiscal 2008 by $0.9 million, or $0.04 per diluted share, on the Company s consolidated statement of operations, and increased the deferred rent liability by $1.5 million and the related deferred income tax asset by $0.6 million on the Company s

consolidated balance sheet. The Company determined this charge to be immaterial to its prior periods consolidated financial statements.

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 is calculated by using the weighted-average shares of common stock outstanding adjusted to include the potentially dilutive effect of outstanding stock options and nonvested share awards.

BIG 5 SPORTING GOODS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

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 fiscal 2009). The Company recognized approximately $0.5 million, $0.5 million and $0.5 million in gift card breakage revenue for fiscal 2009, 2008 and 2007, respectively.

The Company records sales tax collected from its customers on a net basis, and therefore excludes it from revenue as defined in 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.

Cost of Sales

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

Selling and Administrative Expense

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 the Company s corporate headquarters.

Vendor Allowances

The Company receives allowances for co-operative advertising and volume purchase rebates earned through programs with certain vendors. The Company records a receivable for these allowances which are earned but not yet received when it is determined the amounts are probable and reasonably estimable, in accordance with ASC 605. Amounts relating to the purchase of merchandise are treated as a reduction of inventory cost and reduce cost of goods sold as the merchandise is sold. Amounts that represent a reimbursement of costs incurred, such as advertising, are recorded as a reduction in selling and administrative expense. The Company performs detailed analyses to determine the appropriate amount of vendor allowances to be applied as a reduction of merchandise cost and selling and administrative expense.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense amounted to $45.8 million, $51.9 million and $53.2 million for fiscal 2009, 2008 and 2007, respectively. Advertising expense is included in selling and administrative expense in the accompanying consolidated statements of operations. The Company receives co-operative advertising allowances from product vendors in order to subsidize qualifying advertising and similar promotional expenditures made relating to vendors products. These advertising allowances are recognized as a reduction to selling and administrative expense when the Company incurs the advertising cost eligible for the credit. Co-operative advertising allowances recognized as a reduction to selling and administrative expense amounted to $6.9 million, $6.6 million and $7.5 million for fiscal 2009, 2008 and 2007, respectively.

BIG 5 SPORTING GOODS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Share-Based Compensation

The Company accounts for its share-based compensation in accordance with ASC 718, *Compensation Stock Compensation*. Accordingly, the Company recognizes compensation expense using the fair-value method for stock option awards and nonvested share awards granted which vested during the period. See Note 13 to consolidated financial statements for a further discussion on share-based compensation.

Pre-opening Costs

Pre-opening costs for new stores, which consist primarily of payroll and recruiting costs, training, marketing, rent, travel and supplies, are expensed as incurred.

Cash and Cash Equivalents

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

Accounts Receivable

Accounts receivable consist primarily of third party purchasing card receivables, amounts due from inventory vendors for returned products or co-operative advertising and amounts due from lessors for tenant improvement allowances. Accounts receivable have not historically resulted in any material credit losses. An allowance for doubtful accounts is provided when accounts are determined to be uncollectible.

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, 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.

Prepaid Expenses

Prepaid expenses include the prepayment of various operating costs such as insurance, rent, property taxes, software maintenance and supplies, which are expensed when the operating cost is realized. Prepaid expenses also include the purchase of seasonal fish and game licenses from certain state and federal governmental agencies. The Company has a right to return these licenses if they are unsold. The prepaid expenses associated with seasonal fish and game licenses totaled $2.7 million and $3.8 million as of January 3, 2010 and December 28, 2008, respectively.

BIG 5 SPORTING GOODS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Property and Equipment, Net

Property and equipment are stated at cost and are being depreciated or amortized utilizing the straight-line method over the following estimated useful lives:

Land	Indefinite
Buildings	20 years
Leasehold improvements	Shorter of estimated useful life or term of lease
Furniture and equipment	3 - 10 years

Maintenance and repairs are expensed as incurred.

Goodwill

Goodwill represents the excess of purchase price over fair value of net assets acquired. Under ASC 350, *Intangibles Goodwill and Other*, goodwill is not amortized but evaluated for impairment annually or whenever events or changes in circumstances indicate that the value may not be recoverable.

The Company performed an annual impairment test as of the end of fiscal 2009, 2008 and 2007, and determined that goodwill was not impaired. Furthermore, as of January 3, 2010, no goodwill impairment losses have been recognized since the adoption of ASC 350.

Valuation of Long-Lived Assets

The Company reviews long-lived assets for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Long-lived assets are reviewed for recoverability at the lowest level in which there are identifiable cash flows, usually at the store level. Each store typically requires investments of approximately $0.5 million in long-lived assets to be held and used, subject to recoverability testing. The carrying amount of a long-lived asset is not considered recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use of the asset. If the asset is determined not to be recoverable, then it is considered to be impaired and the impairment to be recognized is the amount by which the carrying amount of the asset exceeds the fair value of the asset, determined using discounted cash flow valuation techniques, as defined in ASC 360, *Property, Plant, and Equipment*.

The Company determined the sum of the undiscounted cash flows expected to result from the use of the asset by projecting future revenue and operating expense for each store under consideration for impairment. The estimates of future cash flows involve management judgment and are based upon assumptions about expected future operating performance. Assumptions used in these forecasts are consistent with internal planning, and include assumptions about sales, margins, operating expense and advertising expense in relation to the current economic environment and future expectations, competitive factors in various markets and inflation. The actual cash flows could differ from management s estimates due to changes in business conditions, operating performance and economic conditions.

The Company s evaluation resulted in no long-lived asset impairment charges during fiscal 2009 and 2008, while fiscal 2007 resulted in long-lived asset impairment charges that were not material.

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,

BIG 5 SPORTING GOODS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

distribution center and corporate office. Capital lease obligations consist principally of leases for the Company s distribution center delivery tractors and management information systems hardware.

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 rental 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.

Asset Retirement Obligations

The Company accounts for its asset retirement obligations (ARO) in accordance with ASC 410, *Asset Retirement and Environmental Obligations*, which requires the recognition of a liability for the fair value of a legally required asset retirement obligation when incurred if the liability s fair value can be reasonably estimated. The Company s ARO liabilities are associated with the disposal and retirement of leasehold improvements resulting from contractual obligations at the end of a lease to restore the facility back to a condition specified in the lease agreement.

The Company records the net present value of the ARO liability and also records a related capital asset in an equal amount for those leases that contractually obligate the Company with an asset retirement obligation. The estimate of the ARO liability is based on a number of assumptions including store closing costs, inflation rates and discount rates. Accretion expense related to the ARO liability is recognized as operating expense. The capitalized asset is depreciated on a straight-line basis over the useful life of the leasehold improvement. Upon ARO removal, any difference between the actual retirement costs incurred and the recorded estimated ARO liability is recognized as an operating gain or loss in the consolidated statements of operations. The ARO liability, which totaled $0.5 million and $0.5 million as of January 3, 2010 and December 28, 2008, respectively, is included in other long-term liabilities in the accompanying consolidated balance sheets.

Self-Insurance Liabilities

The Company maintains self-insurance programs for its commercial general liability risk and, in certain states, its estimated workers compensation liability risk. In addition, effective January 1, 2010, the Company has a self-funded insurance program for a portion of its employee medical benefits. Under these programs, the Company maintains insurance coverage for losses in excess of specified per-occurrence amounts. Estimated costs under the workers compensation program, including incurred but not reported claims, are recorded as expense based upon historical experience, trends of paid and incurred claims, and other actuarial assumptions. If actual claims trends under these programs, including the severity or frequency of claims, differ from the Company s estimates, its financial results may

be significantly impacted. The Company s estimated self-insurance liabilities are classified on the balance sheet as accrued expenses or other long-term liabilities based upon whether they are expected to be paid during or beyond the normal operating cycle of 12 months from the date of the consolidated financial statements. Self-insurance liabilities totaled $6.8 million and $7.0 million as of January 3, 2010 and December 28, 2008, respectively, of which $2.5 million and $2.6 million were recorded as a component of accrued expenses as of January 3, 2010 and December 28, 2008, respectively, and $4.3 million and $4.4 million were recorded as a

BIG 5 SPORTING GOODS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

component of other long-term liabilities as of January 3, 2010 and December 28, 2008, respectively, in the accompanying consolidated balance sheets.

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.

ASC 740 provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits of the position. ASC 740 also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The Company s practice is to recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expense. At January 3, 2010 and December 28, 2008, the Company had no accrued interest or penalties.

Concentration of Risk

The Company maintains its cash and cash equivalents accounts in financial institutions. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. The Company performs ongoing evaluations of these institutions to limit its concentration risk exposure.

The Company operates traditional sporting goods retail stores located principally in the western United States. Because of this, the Company is subject to regional risks, such as the economy, including downturns in the housing market, state financial conditions and unemployment, weather conditions, power outages, earthquakes and other natural disasters specific to the states in which the Company operates.

The Company relies on a single distribution center located in Riverside, California, which services all of its stores. Any natural disaster or other serious disruption to the distribution center due to fire, earthquake or any other cause could damage a significant portion of inventory and could materially impair the Company s ability to adequately stock its stores.

A substantial amount of the Company s inventory is manufactured abroad, and shipped through the Port of Los Angeles. From time to time, shipping ports experience capacity constraints, labor strikes, work stoppages or other disruptions that may delay the delivery of imported products. In addition, acts of terrorism could significantly disrupt operations at shipping ports or otherwise impact transportation of the Company s imported merchandise. Disruptions at the Port of Los Angeles, or other shipping ports, may result in delays in the transportation of such products to the

Company s distribution center and may ultimately delay the Company s ability to adequately stock its stores.

The Company purchases merchandise from over 700 suppliers, and the Company s 20 largest suppliers accounted for 35.2% of total purchases in fiscal 2009. One vendor represented greater than 5% of total purchases, at 6.0%, in fiscal 2009. A significant portion of the Company s purchases is manufactured abroad in countries such as China, Taiwan and South Korea. If a disruption of trade were to occur from the countries in which the suppliers of the Company s vendors are located, the Company may be unable to obtain sufficient quantities of products to satisfy its requirements, or the cost of obtaining products may increase.

BIG 5 SPORTING GOODS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The Company could be exposed to credit risk in the event of nonperformance by any lender under its financing agreement. Currently, there continues to be uncertainty in the financial and capital markets. The uncertainty in the market brings additional potential risks to the Company, including higher costs of credit, potential lender defaults, and potential commercial bank failures. The Company has received no indication that any such events will negatively impact the lenders under its current financing agreement; however, the possibility does exist.

(3) Property and Equipment, Net

Property and equipment, net, consist of the following:

	January 3, 2010	December 28, 2008
	(In thousands)	
Land	$ 186	$ 186
Building	434	434
Leasehold improvements	97,753	94,734
Furniture and equipment	119,026	120,250
	217,399	215,604
Accumulated depreciation and amortization	(136,209)	(121,618)
	81,190	93,986
Assets not placed into service	627	255
Property and equipment, net	$ 81,817	$ 94,241

Depreciation expense associated with property and equipment, including assets leased under capital leases, was $10.7 million, $10.7 million and $10.3 million for fiscal 2009, 2008 and 2007, respectively. Amortization expense for leasehold improvements was $8.7 million, $8.4 million and $7.4 million for fiscal 2009, 2008 and 2007, respectively. The gross cost of equipment under capital leases, included above, was $7.9 million and $10.1 million as of January 3, 2010 and December 28, 2008, respectively. The accumulated amortization related to these capital leases was $3.3 million and $5.3 million as of January 3, 2010 and December 28, 2008, respectively.

(4) 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 financing agreement approximates fair value because of the variable market interest rate charged to the Company for these borrowings.

The Company adopted ASC 820, *Fair Value Measurements and Disclosures*, for financial assets and financial liabilities in the first quarter of fiscal 2008, and for nonfinancial assets and nonfinancial liabilities measured on a

nonrecurring basis in the first quarter of fiscal 2009. The adoption of ASC 820 did not have a material impact on the Company s consolidated financial statements for the respective periods.

BIG 5 SPORTING GOODS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

(5) Accrued Expenses

The major components of accrued expenses are as follows:

	January 3, 2010	December 28, 2008
	(In thousands)	
Payroll and related expense	$ 18,472	$ 18,156
Sales tax	10,379	8,721
Occupancy costs	7,634	6,956
Advertising	6,202	6,002
Other	16,627	16,027
Accrued expenses	$ 59,314	$ 55,862

(6) Lease Commitments

The Company currently leases stores, distribution and headquarters facilities under non-cancelable operating leases that expire through the year 2022. The Company s leases generally contain multiple renewal options for periods ranging from five to ten years and require the Company to pay all executory costs such as maintenance and insurance. Certain of the Company s store leases provide for the payment of contingent rent based on a percentage of sales.

Rent expense for operating leases consisted of the following:

	Year Ended		
	January 3, 2010	December 28, 2008	December 30, 2007
		(In thousands)	
Rent expense	$ 54,901	$ 52,699	$ 47,781
Contingent rent	1,149	818	1,385
Total rent expense	$ 56,050	$ 53,517	$ 49,166

Rent expense includes sublease rent income of $0.2 million, $0.1 million and $0.1 million for fiscal 2009, 2008 and 2007, respectively.

Future minimum lease payments under non-cancelable leases, with lease terms in excess of one year, as of January 3, 2010 are as follows:

Year Ending:	Capital Leases	Operating Leases	Total
		(In thousands)	
2010	$ 2,107	$ 58,470	$ 60,577
2011	1,643	52,776	54,419
2012	460	47,147	47,607
2013	203	42,981	43,184
2014	144	35,271	35,415
Thereafter		74,535	74,535
Total minimum lease payments	4,557	$ 311,180	$ 315,737
Imputed interest	(375)		
Present value of minimum lease payments	$ 4,182		

BIG 5 SPORTING GOODS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

In February 2008, the Company entered into a lease for a parcel of land with an existing building adjacent to its corporate headquarters location. The lease term commenced in 2009 and the primary term expires on February 28, 2019, which may be renewed for six successive periods of five years each. In accordance with terms of the lease agreement, the Company is committed to the construction of a new retail building on the premises before the primary term expires in 2019, regardless of whether or not any renewal options are exercised.

(7) Long-Term Debt

As of January 3, 2010, the Company had revolving credit borrowings of $55.0 million compared to $96.5 million as of December 28, 2008. Additionally, as of January 3, 2010, the Company had short-term letter of credit commitments outstanding of $2.7 million compared to $3.0 million as of December 28, 2008. The Company s letter of credit commitments were off-balance sheet arrangements and were excluded from the balance sheet in accordance with GAAP.

On December 15, 2004, the Company entered into a $160.0 million financing agreement with The CIT Group/Business Credit, Inc. and a syndicate of other lenders. On May 24, 2006, the Company amended the financing agreement to, among other things, increase the revolving line of credit to $175.0 million. The agreement has been further amended to, among other things, adjust various definitions relating to availability and revise certain covenants, including the fixed-charge coverage ratio requirement.

The initial termination date of the revolving credit facility is March 20, 2011 (subject to annual extensions thereafter). The revolving credit facility may be terminated by the lenders by giving at least 90 days prior written notice before any anniversary date, commencing with its anniversary date on March 20, 2011. The Company may terminate the revolving credit facility by giving at least 30 days prior written notice, provided that if terminated prior to March 20, 2011, the Company must pay an early termination fee. Unless it is terminated, the revolving credit facility will continue on an annual basis from anniversary date to anniversary date beginning on March 21, 2011.

Under the revolving credit facility, the Company s maximum eligible borrowing capacity is limited to 72.16% of the aggregate value of eligible inventory during October, November and December and 66.38% during the remainder of the year. An annual fee of 0.325%, payable monthly, is assessed on the unused portion of the revolving credit facility. As of January 3, 2010 and December 28, 2008, the Company s total remaining borrowing capacity under the revolving credit facility, after subtracting letters of credit, was $94.3 million and $69.1 million, respectively. The revolving credit facility bears interest at various rates based on the Company s overall borrowings, with a floor of LIBOR plus 1.00% or the JP Morgan Chase Bank prime lending rate and a ceiling of LIBOR plus 1.50% or the JP Morgan Chase Bank prime lending rate. Additionally, if the Company s earnings before interest, taxes, depreciation and amortization (EBITDA) for the prior four quarters, in the aggregate, falls below $50 million, the interest rate under the revolving credit facility is increased to LIBOR plus 1.75% or the JP Morgan Chase Bank prime lending rate plus 0.25%.

At January 3, 2010 and December 28, 2008, the one-month LIBOR rate was 0.3% and 0.5%, respectively, and the JP Morgan Chase Bank prime lending rate was 3.25% and 3.25%, respectively. On January 3, 2010 and December 28, 2008, the Company had borrowings outstanding bearing interest at both LIBOR and the JP Morgan Chase Bank prime lending rates as follows:

	January 3, 2010	December 28, 2008
	(In thousands)	
LIBOR rate	$ 44,000	$ 87,000
JP Morgan Chase Bank prime lending rate	10,955	9,499
Total borrowings	$ 54,955	$ 96,499

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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The financing agreement is secured by a first priority security interest in substantially all of the Company s assets. The financing agreement contains various financial and other covenants, including covenants that require the Company to maintain a fixed-charge coverage ratio of not less than 1.0 to 1.0 in certain circumstances, restrict its ability to incur indebtedness or to create various liens and restrict the amount of capital expenditures that it may incur. The Company s financing agreement also restricts its ability to engage in mergers or acquisitions, sell assets, repurchase stock or pay dividends. The Company may repurchase stock or declare a dividend only if, among other things, no default or event of default exists on the stock repurchase date or dividend declaration date, as applicable, and a default is not expected to result from the repurchase of stock or payment of the dividend and certain other criteria are met, as more fully described in Part II, Item 5, *Market For Registrant s Common Equity, Related Stockholder Matters And Issuer Purchases Of Equity Securities*, of the Company s Annual Report on Form 10-K for the fiscal year ended January 3, 2010. The requirements are described in more detail in the financing agreement and the amendments thereto, which have been filed as exhibits to the Company s previous filings with the SEC. The Company is currently in compliance with all financial covenants under the financing agreement. If the Company fails to make any required payment under its financing agreement or if the Company otherwise defaults under this instrument, the lenders may (i) require the Company to agree to less favorable interest rates and other terms under the agreement in exchange for a waiver of any such default or (ii) accelerate the Company s debt under this agreement. This acceleration could also result in the acceleration of other indebtedness that the Company may have outstanding at that time.

During the second half of fiscal 2010, the Company intends to negotiate a new revolving credit financing agreement to replace the current financing agreement which has an initial termination date of March 20, 2011. Accordingly, beginning in the first quarter of 2010, outstanding debt associated with the existing revolving credit facility will be classified as a current liability.

(8) Income Taxes

Total income tax expense (benefit) consists of the following:

	Current	Deferred	Total
		(In thousands)	
2009:			
Federal	$ 9,376	$ 2,336	$ 11,712
State	1,384	310	1,694
	$ 10,760	$ 2,646	$ 13,406
2008:			
Federal	$ 6,937	$ (67)	$ 6,870
State	2,428	(798)	1,630
	$ 9,365	$ (865)	$ 8,500
2007:			

Federal	$ 18,287	$ (3,404)	$ 14,883
State	3,661	(287)	3,374
	$ 21,948	$ (3,691)	$ 18,257

BIG 5 SPORTING GOODS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The provision for income taxes differs from the amounts computed by applying the federal statutory tax rate of 35% to earnings before income taxes, as follows:

	January 3, 2010	Year Ended December 28, 2008	December 30, 2007
		(In thousands)	
Tax expense at statutory rate	$ 12,326	$ 7,842	$ 16,222
State taxes, net of federal benefit	1,651	1,087	2,143
Tax credits and other	(571)	(429)	(108)
	$ 13,406	$ 8,500	$ 18,257

Deferred tax assets and liabilities consist of the following tax-effected temporary differences:

	January 3, 2010	December 28, 2008
	(In thousands)	
Deferred tax assets:		
Deferred rent	$ 10,453	$ 10,562
Share-based compensation	3,127	2,433
Inventory	1,010	1,503
Other	9,595	9,428
Deferred tax assets	24,185	23,926
Deferred tax liabilities basis difference in fixed assets	(5,135)	(2,230)
Net deferred tax assets	$ 19,050	$ 21,696

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversals of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections of future taxable income over the periods during which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences. The amount of the deferred tax asset considered realizable, however, could be reduced if estimates of future taxable income are reduced.

The Company files a consolidated federal income tax return and files tax returns in various state and local jurisdictions. The statutes of limitations for its consolidated federal income tax returns are open for years 2006 and after, and state and local income tax returns are open for years 2005 and after.

At January 3, 2010 and December 28, 2008, 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 January 3, 2010 and December 28, 2008, the Company had no accrued interest or penalties.

(9) 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, which is reduced by shares repurchased and

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held in treasury, during the period. Diluted earnings per share represents basic earnings per share adjusted to include the potentially dilutive effect of outstanding stock options and nonvested share awards.

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

	Year Ended		
	January 3, 2010	December 28, 2008	December 30, 2007
	(In thousands, except per share data)		
Net income	$ 21,811	$ 13,904	$ 28,091
Weighted-average shares of common stock outstanding:			
Basic	21,434	21,608	22,465
Dilutive effect of common stock equivalents arising from stock options and nonvested share awards	223	11	94
Diluted	21,657	21,619	22,559
Basic earnings per share	$ 1.02	$ 0.64	$ 1.25
Diluted earnings per share	$ 1.01	$ 0.64	$ 1.25

The computation of diluted earnings per share for fiscal 2009, 2008 and 2007 does not include 923,559 options, 1,365,271 options and 883,105 options, respectively, that were outstanding and antidilutive (i.e., including such options would result in higher earnings per share), since the exercise prices of these stock options exceeded the average market price of the Company s common shares. Additionally, the computation of diluted earnings per share for fiscal 2009 does not include nonvested share awards in the amount of 6,760 shares that were outstanding and antidilutive. No nonvested share awards were antidilutive for fiscal 2008 and 2007.

Due to the economic recession, the Company did not repurchase any shares of its common stock during fiscal 2009. The Company repurchased 600,999 and 703,776 shares of its common stock for $5.3 million and $14.2 million in fiscal 2008 and fiscal 2007, respectively. Since the inception of the Company s initial share repurchase program in May 2006 through January 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.

(10) Employee Benefit Plans

The Company has a 401(k) plan covering eligible employees. Employee contributions are supplemented by Company contributions subject to 401(k) plan terms. The Company recognized $2.0 million for fiscal 2009, $2.2 million for fiscal 2008 and $3.0 million for fiscal 2007 in employer matching and profit-sharing contributions.

(11) Related Party Transactions

G. Michael Brown is a director of the Company and a partner of the law firm of Musick, Peeler & Garrett LLP. From time to time, the Company retains Musick, Peeler & Garrett LLP to handle various litigation matters. The Company received services from the law firm of Musick, Peeler & Garrett LLP amounting to $0.5 million, $0.8 million and $0.8 million in fiscal 2009, 2008 and 2007, respectively. Amounts due to Musick, Peeler & Garrett LLP totaled $22,000 and $59,000 as of January 3, 2010 and December 28, 2008, respectively.

Prior to his death in fiscal 2008, the Company had an employment agreement with Robert W. Miller (Mr. Miller), co-founder of the Company and the father of Steven G. Miller, Chairman of the Board, President, Chief Executive Officer and a director of the Company, and Michael D. Miller, a director of the Company. The employment agreement provided for Mr. Miller to receive an annual base salary of $350,000. The employment

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agreement further provided that, following his death, the Company will pay his surviving wife $350,000 per year and provide her specified benefits for the remainder of her life. During fiscal 2009 and 2008, the Company made a payment of $350,000 to Mr. Miller s wife. The Company recognized expense of $0.4 million, $0.4 million and $0.1 million in fiscal 2009, 2008 and 2007, respectively, to provide for a liability for the future obligations under this agreement. Based upon actuarial valuation estimates related to this agreement, the Company recorded a liability of $1.8 million and $1.8 million as of January 3, 2010 and December 28, 2008, respectively. The short-term portion of this liability is recorded in accrued expenses, and the long-term portion is recorded in other long-term liabilities.

(12) 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. The court has scheduled a hearing for June 11, 2010, to consider the parties request to preliminarily approve the proposed settlement. Under the terms of the proposed 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 proposed 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 preliminary or 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 could have a material adverse effect on the Company s financial condition, and any required change in the Company s labor practices, as well as the costs of defending this litigation, could have a negative impact on the Company s results of operations.

The Company is secondarily liable for the performance of a lease that has been assigned to a third party. This secondary obligation includes the payment of lease costs over the remaining lease term, which expires in January 2011, for which the Company was responsible as the original lessee. The undiscounted secondary obligation of the remaining lease costs approximates $0.2 million at January 3, 2010. Since there is no reason to believe that the third party will default, no provision has been made in the consolidated financial statements for amounts that would be

payable by the Company.

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 adverse effect on the Company s financial position, results of operations or liquidity.

BIG 5 SPORTING GOODS CORPORATION
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(13) Share-Based Compensation Plans

2002 Stock Incentive Plan

In June 2002, the Company adopted the 2002 Stock Incentive Plan (2002 Plan). The 2002 Plan provided for the grant of incentive stock option awards and non-qualified stock option awards to the Company s employees, directors and specified consultants. Option awards granted under the 2002 Plan generally vested and became exercisable at the rate of 25% per year with a maximum life of ten years. Upon exercise of granted option awards, shares are expected to be issued from new shares previously registered for the 2002 Plan. The 2002 Plan was terminated in connection with the approval of the 2007 Equity and Performance Incentive Plan, as described below. Consequently, at January 3, 2010, no shares remained available for future grant and 1,028,800 option awards remained outstanding under the 2002 Plan, subject to adjustment to reflect any changes in the outstanding common stock of the Company by reason of any reorganization, recapitalization, reclassification, stock combination, stock dividend, stock split, reverse stock split, spin off or other similar transaction.

2007 Equity and Performance Incentive Plan

In June 2007, the Company adopted the 2007 Equity and Performance Incentive Plan (2007 Plan) and cancelled the 2002 Plan. The aggregate amount of shares authorized for issuance under the 2007 Plan is 2,399,250 shares of common stock of the Company, plus any shares subject to awards granted under the 2002 Plan which are forfeited, expire or are cancelled after April 24, 2007 (the effective date of the 2007 Plan). This amount represents the amount of shares that remained available for grant under the 2002 Plan as of April 24, 2007. Awards under the 2007 Plan may consist of option awards (both incentive stock option awards and non-qualified stock option awards), stock appreciation rights, nonvested share awards, other stock unit awards, performance awards, or dividend equivalents. Any shares that are subject to awards of options or stock appreciation rights shall be counted against this limit as one share for every one share granted, regardless of the number of shares actually delivered pursuant to the awards. Any shares that are subject to awards other than options or stock appreciation rights (including shares delivered on the settlement of dividend equivalents) shall be counted against this limit as 2.5 shares for every one share granted. The aggregate number of shares available under the 2007 Plan and the number of shares subject to outstanding options will be increased or decreased to reflect any changes in the outstanding common stock of the Company by reason of any recapitalization, spin-off, reorganization, reclassification, stock dividend, stock split, reverse stock split, or similar transaction. Option awards granted under the 2007 Plan generally vest and become exercisable at the rate of 25% per year with a maximum life of ten years. Option and share awards provide for accelerated vesting if there is a change in control. The exercise price of the stock option awards is equal to the quoted market price of the Company s common stock on the date of grant. Upon the grant of nonvested share awards or the exercise of granted options, shares are expected to be issued from new shares which were registered for the 2007 Plan. In fiscal 2009, the Company granted 560,700 stock option awards and 12,000 nonvested share awards to certain employees, as defined by ASC 718, *Compensation Stock Compensation*, under the 2007 Plan. At January 3, 2010, 1,276,000 shares remained available for future grant and 880,575 option awards and 92,925 nonvested share awards remained outstanding under the 2007 Plan.

The Company accounts for its share-based compensation in accordance with ASC 718 and recognizes compensation expense, net of estimated forfeitures, using the fair-value method on a straight-line basis over the requisite service

period for share option awards and nonvested share awards granted which vested during the period. The estimated forfeiture rate considers historical employee turnover rates stratified into employee pools in comparison with an overall employee turnover rate, as well as expectations about the future. The Company periodically revises the estimated forfeiture rate in subsequent periods if actual forfeitures differ from those estimates. Compensation expense recorded under this method for fiscal 2009, 2008 and 2007 was $2.1 million, $1.9 million and $2.2 million, respectively, which reduced operating income and income before income taxes by the same amount. Compensation expense recognized in cost of sales was $0.1 million, $0.1 million and $0.1 million in fiscal 2009, 2008 and 2007, respectively, and compensation expense recognized in selling and administrative

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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expense was $2.0 million, $1.8 million and $2.1 million in fiscal 2009, 2008 and 2007, respectively. The recognized tax benefit related to compensation expense for fiscal 2009, 2008 and 2007 was $0.8 million, $0.7 million and $0.9 million, respectively. Net income for fiscal 2009, 2008 and 2007 was reduced by $1.3 million, $1.2 million and $1.3 million, respectively, or $0.06, $0.06 and $0.06 per basic and diluted share, respectively.

Option Awards

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

	Year Ended		
	January 3, 2010	**December 28, 2008**	**December 30, 2007**
Risk-free interest rate	2.3%	2.8%	4.6%
Expected term	6.50 years	6.18 years	6.25 years
Expected volatility	55.2%	45.9%	43.0%
Expected dividend yield	4.07%	4.02%	1.42%

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 option award; the expected term represents the weighted-average period of time that option awards granted are expected to be outstanding giving consideration to vesting schedules and historical participant exercise behavior for fiscal 2009 and 2008, and the simplified method pursuant to SEC Topic 14, *Share-Based Payment* for fiscal 2007; 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.

The weighted-average grant-date fair value of share option awards granted for fiscal 2009, 2008 and 2007 was $1.92 per share, $2.85 per share and $10.87 per share, respectively.

A summary of the status of the Company s share option awards is presented below:

	Shares	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contractual Life (In Years)**	**Aggregate Intrinsic Value**
Outstanding at December 28, 2008	1,408,400	$ 17.37		
Granted	560,700	5.00		
Exercised	(42,775)	9.94		

Forfeited or Expired	(16,950)		17.67		
Outstanding at January 3, 2010	1,909,375	$	13.90	6.8	$ 10,370,926
Exercisable at January 3, 2010	992,750	$	18.98	5.2	$ 1,808,653
Vested and Expected to Vest at January 3, 2010	1,874,221	$	14.05	6.8	$ 9,969,554

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based upon the Company s closing stock price of $17.18 as of January 3, 2010, which would have been received by the option holders had all option holders exercised their option awards as of that date.

The total intrinsic value of share option awards exercised for fiscal 2009 and 2007 was approximately $0.3 million and $0.6 million, respectively. No share option awards were exercised in fiscal 2008. The total cash

BIG 5 SPORTING GOODS CORPORATION
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received from employees as a result of employee share option award exercises for fiscal 2009 and 2007 was approximately $0.4 million and $0.5 million, respectively. The actual tax benefit realized for the tax deduction from option award exercises of share-based payment awards in fiscal 2009 and 2007 totaled $0.1 million and $0.2 million, respectively.

As of January 3, 2010, there was $1.7 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 2.5 years.

Nonvested share awards

The following table details the Company s nonvested share awards activity for fiscal 2009:

	Shares	Weighted-Average Grant-Date Fair Value
Balance at December 28, 2008	109,100	$ 7.92
Granted	12,000	13.17
Vested	(27,075)	7.92
Forfeited	(1,100)	7.91
Balance at January 3, 2010	92,925	$ 8.60

The weighted-average grant-date fair value of nonvested share awards is the quoted market value of the Company s common stock on the date of grant, as shown in the table above. The weighted-average grant date fair value of nonvested share awards granted in fiscal 2009 and 2008 was $13.17 and $7.92, respectively. No nonvested share awards were granted in fiscal 2007.

Nonvested share awards vest from the date of grant in four equal annual installments of 25% per year. The total fair value of nonvested share awards which vested during fiscal 2009 was $0.2 million. No nonvested share awards were vested during fiscal 2008, since no nonvested share awards had been granted prior to fiscal 2008.

As of January 3, 2010, there was $0.6 million of total unrecognized compensation cost related to nonvested share awards. That cost is expected to be recognized over a weighted-average period of 2.4 years.

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(14) Selected Quarterly Financial Data (unaudited)

Fiscal 2009

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter[1][3]
	(In thousands, except per share data)			
Net sales	$ 210,291	$ 216,040	$ 231,582	$ 237,629
Gross profit	$ 67,072	$ 71,331	$ 78,509	$ 80,839
Net income	$ 2,760	$ 4,655	$ 8,011	$ 6,386
Net income per share (basic)	$ 0.13	$ 0.22	$ 0.37	$ 0.30
Net income per share (diluted)	$ 0.13	$ 0.22	$ 0.37	$ 0.29

Fiscal 2008

	First Quarter	Second Quarter[2]	Third Quarter	Fourth Quarter
	(In thousands, except per share data)			
Net sales	$ 212,866	$ 208,995	$ 223,180	$ 219,609
Gross profit	$ 71,583	$ 68,375	$ 74,255	$ 71,272
Net income	$ 4,120	$ 1,724	$ 4,458	$ 3,602
Net income per share (basic)	$ 0.19	$ 0.08	$ 0.21	$ 0.17
Net income per share (diluted)	$ 0.19	$ 0.08	$ 0.21	$ 0.17

(1) The fourth quarter of fiscal 2009 included 14 weeks, compared with the fourth quarter of fiscal 2008 which included 13 weeks.

(2) In the second quarter of fiscal 2008, the Company recorded a nonrecurring pre-tax charge of $1.5 million to correct an error in its previously recognized straight-line rent expense, substantially all of which related to prior periods and accumulated over a period of 15 years. This charge reduced net income in the second quarter of fiscal 2008 by $0.9 million, or $0.04 per diluted share. The Company determined this charge to be immaterial to its prior periods consolidated financial statements.

(3) In the fourth quarter of fiscal 2009, the Company recorded a net pre-tax charge of $1.0 million, which reflected a legal settlement accrual offset by proceeds received from the settlement of a lawsuit relating to credit card fees. This charge reduced net income in fiscal 2009 by $0.6 million, or $0.03 per diluted share.

(15) Subsequent Event

In the first 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 March 22, 2010 to stockholders of record as of March 8, 2010.

BIG 5 SPORTING GOODS CORPORATION
SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS
(In thousands)

	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Balance at End of Period
January 3, 2010				
Allowance for doubtful receivables	$ 305	$ 21	$ (103)	$ 223
Allowance for sales returns	1,423	(28)		1,395
Inventory reserves	4,434	3,786	(3,576)	4,645
December 28, 2008				
Allowance for doubtful receivables	$ 405	$ 130	$ (230)	$ 305
Allowance for sales returns	1,496	(73)		1,423
Inventory reserves	4,713	4,890	(5,169)	4,434
December 30, 2007				
Allowance for doubtful receivables	$ 314	$ 181	$ (90)	$ 405
Allowance for sales returns	3,247	(44)	(1,707)[1]	1,496
Inventory reserves	3,741	6,785	(5,813)	4,713

(1) In fiscal 2007, the Company changed its consolidated balance sheet presentation of the allowance for sales returns to classify the estimated value of merchandise returns as an offset to the estimated sales value of returns. This change reduced the fiscal 2007 allowance balance by approximately $1.7 million but did not impact the consolidated statement of operations.

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EXHIBIT INDEX

Exhibit Number	Exhibit Description
3.1	Amended and Restated Certificate of Incorporation of Big 5 Sporting Goods Corporation.(1)
3.2	Amended and Restated Bylaws.(1)
4.1	Specimen of Common Stock Certificate.(2)
10.1	2002 Stock Incentive Plan.(3)
10.2	Form of Amended and Restated Employment Agreement between Robert W. Miller and Big 5 Sporting Goods Corporation.(3)
10.3	Second Amended and Restated Employment Agreement, dated as of December 31, 2008, between Steven G. Miller and Big 5 Sporting Goods Corporation.(13)
10.4	Amended and Restated Indemnification Implementation Agreement between Big 5 Corp. (successor to United Merchandising Corp.) and Thrifty PayLess Holdings, Inc. dated as of April 20, 1994.(1)
10.5	Agreement and Release among Pacific Enterprises, Thrifty PayLess Holdings, Inc., Thrifty PayLess, Inc., Thrifty and Big 5 Corp. (successor to United Merchandising Corp.) dated as of March 11, 1994.(1)
10.6	Grant of Security Interest in and Collateral Assignment of Trademarks and Licenses dated as of March 8, 1996 by Big 5 Corp. in favor of The CIT Group/Business Credit, Inc.(1)
10.7	Guaranty dated March 8, 1996 by Big 5 Corporation (now known as Big 5 Sporting Goods Corporation) in favor of The CIT Group/Business Credit, Inc.(1)
10.8	Form of Indemnification Agreement.(1)
10.9	Form of Indemnification Letter Agreement.(2)
10.10	Co-Obligor Agreement, dated as of January 28, 2004, made by Big 5 Corp. and Big 5 Services Corp. in favor of The CIT Group/Business Credit, Inc. as agent for the Lenders (as defined therein).(4)
10.11	Second Amended and Restated Financing Agreement, dated as of December 15, 2004, among The CIT Group/Business Credit, Inc., as Agent and as Lender, the Lenders named therein, and Big 5 Corp. and Big 5 Services Corp.(5)
10.12	Modification and Reaffirmation of Guaranty dated as of December 15, 2004 by and between Big 5 Sporting Goods Corporation, a Delaware corporation, and The CIT Group/Business Credit, Inc., a New York corporation, as agent for the Lenders described therein.(5)
10.13	Reaffirmation of Co-Obligor Agreement dated as of December 15, 2004, by and among Big 5 Corp., a Delaware corporation and Big 5 Services Corp., a Virginia corporation, and The CIT Group/Business Credit, Inc., a New York corporation, as agent for the Lenders described therein.(5)
10.14	First Amendment to Second Amended and Restated Financing Agreement, dated as of May 24, 2006, among The CIT Group/Business Credit, Inc., as Agent and as Lender, the Lenders named therein, and Big 5 Corp. and Big 5 Services Corp.(6)
10.15	Lease dated as of April 14, 2004 by and between Pannatoni Development Company, LLC and Big 5 Corp.(7)
10.16	Form of Big 5 Sporting Goods Corporation Stock Option Grant Notice and Stock Option Agreement for use with Steven G. Miller with the 2002 Stock Incentive Plan.(8)
10.17	Form of Big 5 Sporting Goods Corporation Stock Option Grant Notice and Stock Option Agreement for use with 2002 Stock Incentive Plan.(8)
10.18	Employment Offer Letter dated August 15, 2005 between Barry D. Emerson and Big 5 Corp.(9)
10.19	Severance Agreement dated as of August 9, 2006 between Barry D. Emerson and Big 5 Corp.(10)
10.20	Big 5 Sporting Goods Corporation 2007 Equity and Performance Incentive Plan.(11)
10.21	

	Form of Big 5 Sporting Goods Corporation Stock Option Grant Notice and Stock Option Agreement for use with 2007 Equity and Performance Incentive Plan.(11)
10.22	Form of Big 5 Sporting Goods Corporation Restricted Stock Grant Notice and Restricted Stock Agreement for use with 2007 Equity and Performance Incentive Plan.(12)

Exhibit Number	Exhibit Description
10.23	Second Amendment to Second Amended and Restated Financing Agreement, dated as of August 24, 2007, among The CIT Group/Business Credit, Inc., as Agent and as Lender, the Lenders named therein, and Big 5 Corp. and Big 5 Services Corp.[12]
10.24	Third Amendment to Second Amended and Restated Financing Agreement, dated as of February 8, 2008, among The CIT Group/Business Credit, Inc., as Agent and as Lender, the Lenders named therein, and Big 5 Corp. and Big 5 Services Corp.[12]
14.1	Code of Business Conduct and Ethics.[4]
21.1	Subsidiaries of Big 5 Sporting Goods Corporation.[8]
23.1	Consent of Independent Registered Public Accounting Firm, Deloitte & Touche LLP.[14]
31.1	Rule 13a-14(a) Certification of Chief Executive Officer.[14]
31.2	Rule 13a-14(a) Certification of Chief Financial Officer.[14]
32.1	Section 1350 Certification of Chief Executive Officer.[14]
32.2	Section 1350 Certification of Chief Financial Officer.[14]

(1) Incorporated by reference to the Annual Report on Form 10-K filed by Big 5 Sporting Goods Corporation on March 31, 2003.

(2) Incorporated by reference to Amendment No. 4 to the Registration Statement on Form S-1 filed by Big 5 Sporting Goods Corporation on June 24, 2002.

(3) Incorporated by reference to Amendment No. 2 to the Registration Statement on Form S-1 filed by Big 5 Sporting Goods Corporation on June 5, 2002.

(4) Incorporated by reference to the Annual Report on Form 10-K filed by Big 5 Sporting Goods Corporation on March 12, 2004.

(5) Incorporated by reference to the Current Report on Form 8-K filed by Big 5 Sporting Goods Corporation on December 21, 2004.

(6) Incorporated by reference to the Current Report on Form 8-K filed by Big 5 Sporting Goods Corporation on May 31, 2006.

(7) Incorporated by reference to the Quarterly Report on Form 10-Q filed by Big 5 Sporting Goods Corporation on August 6, 2004.

(8) Incorporated by reference to the Annual Report on Form 10-K filed by Big 5 Sporting Goods Corporation on September 6, 2005.

(9) Incorporated by reference to the Annual Report on Form 10-K filed by Big 5 Sporting Goods Corporation on March 16, 2006.

(10) Incorporated by reference to the Quarterly Report on Form 10-Q filed by Big 5 Sporting Goods Corporation on August 11, 2006.

(11) Incorporated by reference to the Current Report on Form 8-K filed by Big 5 Sporting Goods Corporation on June 25, 2007.

(12) Incorporated by reference to the Annual Report on Form 10-K filed by Big 5 Sporting Goods Corporation on March 10, 2008.

(13) Incorporated by reference to the Current Report on Form 8-K filed by Big 5 Sporting Goods Corporation on January 6, 2009.

(14) Filed herewith.