BIG 5 SPORTING GOODS CORP
Form 10-Q
August 06, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 4, 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

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

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

Large accelerated filer	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 Exchange Act). Yes o No þ

There were 21,813,662 shares of common stock, with a par value of $0.01 per share outstanding as of August 1, 2010.

BIG 5 SPORTING GOODS CORPORATION

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

	July 4, 2010	January 3, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,581	$ 5,765
Accounts receivable, net of allowances of $80 and $223, respectively	12,005	13,398
Merchandise inventories, net	252,040	230,911
Prepaid expenses	10,360	9,683
Deferred income taxes	7,616	7,723
Total current assets	287,602	267,480
Property and equipment, net	78,377	81,817
Deferred income taxes	13,195	11,327
Other assets, net of accumulated amortization of $372 and $346, respectively	1,091	1,065
Goodwill	4,433	4,433
Total assets	$ 384,698	$ 366,122
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 96,143	$ 85,721
Accrued expenses	49,490	59,314
Current portion of capital lease obligations	1,895	1,904
Short-term revolving credit borrowings	64,083	
Total current liabilities	211,611	146,939
Deferred rent, less current portion	23,544	23,832
Capital lease obligations, less current portion	1,652	2,278
Long-term revolving credit borrowings		54,955
Other long-term liabilities	6,712	6,257
Total liabilities	243,519	234,261
Commitments and contingencies		
Stockholders equity:		
Common stock, $0.01 par value, authorized 50,000,000 shares; issued 23,295,712 and 23,050,061 shares, respectively; outstanding 21,812,417 and 21,566,766 shares, respectively	233	230
Additional paid-in capital	96,958	95,259

Retained earnings		65,354		57,738
Less: Treasury stock, at cost; 1,483,295 shares		(21,366)		(21,366)
Total stockholders equity		141,179		131,861
Total liabilities and stockholders equity	$	384,698	$	366,122

See accompanying notes to unaudited condensed consolidated financial statements.

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

	13 Weeks Ended		26 Weeks Ended	
	July 4, 2010	**June 28, 2009**	**July 4, 2010**	**June 28, 2009**
Net sales	$ 219,828	$ 216,040	$ 438,349	$ 426,331
Cost of sales	146,862	144,709	293,833	287,929
Gross profit	72,966	71,331	144,516	138,402
Selling and administrative expense	65,002	63,029	128,065	124,867
Operating income	7,964	8,302	16,451	13,535
Interest expense	363	608	767	1,321
Income before income taxes	7,601	7,694	15,684	12,214
Income taxes	2,849	3,039	5,899	4,800
Net income	$ 4,752	$ 4,655	$ 9,785	$ 7,414
Earnings per share:				
Basic	$ 0.22	$ 0.22	$ 0.45	$ 0.35
Diluted	$ 0.22	$ 0.22	$ 0.45	$ 0.35
Dividends per share	$ 0.05	$ 0.05	$ 0.10	$ 0.10
Weighted-average shares of common stock outstanding:				
Basic	21,554	21,429	21,519	21,422
Diluted	21,893	21,554	21,873	21,483

See accompanying notes to unaudited condensed consolidated financial statements.

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

	26 Weeks Ended	
	July 4, 2010	**June 28, 2009**
Cash flows from operating activities:		
Net income	$ 9,785	$ 7,414
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,407	9,716
Share-based compensation	940	1,031
Excess tax benefit related to share-based awards	(290)	
Amortization of deferred finance charges	26	27
Deferred income taxes	(1,761)	674
Loss (gain) on disposal of property and equipment	18	(11)
Changes in operating assets and liabilities:		
Accounts receivable, net	1,393	7,921
Merchandise inventories, net	(21,129)	(8,194)
Prepaid expenses and other assets	(729)	(2,257)
Accounts payable	12,691	20,181
Accrued expenses and other long-term liabilities	(9,929)	(7,968)
Net cash provided by operating activities	422	28,534
Cash flows from investing activities:		
Purchases of property and equipment	(4,987)	(2,198)
Proceeds from disposal of property and equipment	4	
Net cash used in investing activities	(4,983)	(2,198)
Cash flows from financing activities:		
Net borrowings (payments) under revolving credit facility and book overdraft	6,804	(28,648)
Principal payments under capital lease obligations	(1,021)	(1,206)
Proceeds from exercise of stock options	614	8
Excess tax benefit related to share-based awards	290	
Tax withholding payments for share-based compensation	(143)	(47)
Dividends paid	(2,167)	(2,150)
Net cash provided by (used in) financing activities	4,377	(32,043)
Net decrease in cash and cash equivalents	(184)	(5,707)
Cash and cash equivalents at beginning of period	5,765	9,058
Cash and cash equivalents at end of period	$ 5,581	$ 3,351

Supplemental disclosures of non-cash investing and financing activities:

Property and equipment acquired under capital leases	$	405	$	1,341
Property and equipment purchases accrued	$	911	$	457
Stock awards vested and issued to employees	$	456	$	182
Supplemental disclosures of cash flow information:				
Interest paid	$	749	$	1,443
Income taxes paid	$	7,365	$	296

See accompanying notes to unaudited condensed consolidated financial statements.

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BIG 5 SPORTING GOODS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Description of Business

Business

Big 5 Sporting Goods Corporation (the Company) is a leading sporting goods retailer in the western United States, operating 388 stores in 12 states at July 4, 2010. The Company provides a full-line product offering in a traditional sporting goods store format that averages approximately 11,000 square feet. The Company s product mix includes athletic shoes, apparel and accessories, as well as a broad selection of outdoor and athletic equipment for team sports, fitness, camping, hunting, fishing, tennis, golf, snowboarding and in-line skating. The Company is a holding company that operates as one business segment through Big 5 Corp., its wholly-owned subsidiary, and Big 5 Services Corp., which is a wholly-owned subsidiary of Big 5 Corp. Big 5 Services Corp. provides a centralized operation for the issuance and administration of gift cards.

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

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

(2) Summary of Significant Accounting Policies

Consolidation

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

Reporting Period

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

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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Recently Issued Accounting Updates

In May 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (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. In February 2010, Accounting Standards Update (ASU) 2010-09, *Amendments to Certain Recognition and Disclosure Requirements*, was issued to clarify certain questions that arose in practice. ASU 2010-09 amended ASC 855 to, among other things, expressly require Securities and Exchange Commission (SEC) filers to evaluate subsequent events through the date the financial statements are issued. ASC 855 was effective for interim or annual financial periods ending after June 15, 2009, and shall be applied prospectively, while ASU 2010-09 was effective upon issuance. Accordingly, the Company adopted ASC 855 in the second quarter of fiscal 2009 and ASU 2010-09 in February 2010. The adoption of ASC 855 and ASU 2010-09 had no impact on the Company s Interim 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 Interim Financial Statements and reported amounts of revenue and expense during the reporting period to prepare these Interim Financial Statements in conformity with GAAP. Certain items subject to such estimates and assumptions include the carrying amount of property and equipment, and goodwill; valuation allowances for receivables, sales returns, inventories and deferred income tax assets; estimates related to gift card breakage and the valuation of share-based payment awards; and obligations related to asset retirements, litigation, self-insurance liabilities and employee benefits. Actual results could differ significantly from these estimates under different assumptions and conditions.

Revenue Recognition

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

Cash received from the sale of gift cards is recorded as a liability, and revenue is recognized upon the redemption of the gift card or when it is determined that the likelihood of redemption is remote (gift card breakage) and no liability to relevant jurisdictions exists. The Company determines the gift card breakage rate based upon historical redemption patterns and

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

recognizes gift card breakage on a straight-line basis over the estimated gift card redemption period (20 quarters as of the end of the second quarter of fiscal 2010). The Company recognized approximately $108,000 and $217,000 in gift card breakage revenue for the 13 weeks and 26 weeks ended July 4, 2010, respectively, compared to approximately $115,000 and $231,000 for the 13 weeks and 26 weeks ended June 28, 2009, 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.

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.

Leases and Deferred Rent

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

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

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

BIG 5 SPORTING GOODS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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Deferred rent represents the difference between rent paid and the amounts expensed for operating leases. Certain leases have scheduled rent increases, and certain leases include an initial period of free or reduced rent as an inducement to enter into the lease agreement (rent holidays). The Company recognizes rent expense for rent increases and rent holidays on a straight-line basis over the term of the underlying leases, without regard to when rent payments are made. The calculation of straight-line rent is based on the reasonably assured lease term as defined in ASC 840 and may exceed the initial non-cancelable lease term.

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

(3) Fair Value Measurements

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

(4) Accrued Expenses

Accrued expenses consist of the following:

	July 4, 2010	January 3, 2010
	(In thousands)	
Payroll and related expense	$ 16,918	$ 18,472
Occupancy costs	7,527	7,634
Sales tax	6,210	10,379
Advertising	4,646	6,202
Other	14,189	16,627
Accrued expenses	$ 49,490	$ 59,314

(5) Revolving Credit Borrowings

The Company s existing financing agreement with the CIT Group/Business Credit, Inc. (CIT) and a syndicate of other lenders, as amended, originally provided for a line of credit up to $175.0 million. In the second quarter of fiscal 2010, the Company elected to permanently reduce the line of credit available under the existing financing agreement to $140.0 million as a cost saving measure.

During the second half of fiscal 2010, the Company intends to negotiate a new revolving credit financing agreement to replace the existing financing agreement which has an initial termination date of March 20, 2011. Accordingly, as of July 4, 2010, outstanding debt associated with the existing revolving credit facility was classified as a current liability. The Company had

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

short-term revolving credit borrowings of $64.1 million as of July 4, 2010, compared to long-term revolving credit borrowings of $55.0 million as of January 3, 2010.

As of July 4, 2010 and January 3, 2010, the Company had a total remaining borrowing capacity under the existing revolving credit facility, after subtracting letters of credit, of $72.5 million and $94.3 million, respectively.

(6) Income Taxes

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

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

At July 4, 2010 and January 3, 2010, the Company had no unrecognized tax benefits that, if recognized, would affect the Company s effective income tax rate over the next 12 months. The Company s policy is to recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expense. At July 4, 2010 and January 3, 2010, the Company had no accrued interest or penalties.

(7) Share-based Compensation

At its discretion, the Company grants share option awards or nonvested share awards to certain employees, as defined by ASC 718, *Compensation Stock Compensation*, under the Company s 2007 Equity and Performance Incentive Plan (the Plan) and accounts for its share-based compensation in accordance with ASC 718. The Company recognized approximately $0.5 million and $0.9 million in share-based compensation expense, including share option awards and nonvested share awards, for the 13 weeks and 26 weeks ended July 4, 2010, respectively, compared to $0.5 million and $1.0 million for the 13 weeks and 26 weeks ended June 28, 2009, respectively.

Share Option Awards

Share option awards granted by the Company generally vest and become exercisable at the rate of 25% per year with a maximum life of ten years. The exercise price of the share option

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(continued)

awards is equal to the quoted market price of the Company s common stock on the date of grant. In the 26 weeks ended July 4, 2010, the Company granted 12,000 share option awards. The weighted-average grant-date fair value per option for share option awards granted in the 26 weeks ended July 4, 2010 and June 28, 2009 was $6.26 and $1.92, respectively.

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

	13 Weeks Ended		26 Weeks Ended	
	July 4, 2010	June 28, 2009	July 4, 2010	June 28, 2009
Risk-free interest rate	2.4%	3.3%	2.4%	2.3%
Expected term	6.50 years	6.50 years	6.50 years	6.50 years
Expected volatility	55.2%	55.2%	55.2%	55.2%
Expected dividend yield	1.54%	1.52%	1.54%	4.07%

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

As of July 4, 2010, there was $1.3 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 2.4 years.

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BIG 5 SPORTING GOODS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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Nonvested Share Awards

In the 26 weeks ended July 4, 2010, the Company granted 172,000 nonvested share awards. The weighted-average grant-date fair value per share of the Company s nonvested share awards granted in the 26 weeks ended July 4, 2010 and June 28, 2009 was $15.52 and $13.17, respectively.

The following table details the Company s nonvested share awards activity for the 26 weeks ended July 4, 2010:

	Shares	Weighted-Average Grant-Date Fair Value
Balance at January 3, 2010	92,925	$ 8.60
Granted	172,000	15.52
Vested	(29,875)	8.45
Forfeited	(300)	7.91
Balance at July 4, 2010	234,750	$ 13.69

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

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

As of July 4, 2010, there was $2.9 million of total unrecognized compensation cost related to nonvested share awards. That cost is expected to be recognized over a weighted-average period of 3.2 years.

To satisfy employee minimum statutory tax withholding requirements for nonvested share awards that vest, the Company withholds and retires a portion of the vesting common shares, unless an employee elects to pay cash. In the 26 weeks ended July 4, 2010, the Company withheld 9,104 common shares with a total value of $143,000. This amount is presented as a cash outflow from financing activities in the accompanying interim unaudited condensed consolidated statements of cash flows.

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BIG 5 SPORTING GOODS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(8) Earnings Per Share

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

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

	13 Weeks Ended		26 Weeks Ended	
	July 4, 2010	June 28, 2009	July 4, 2010	June 28, 2009
	(In thousands, except per share amounts)			
Net income	$ 4,752	$ 4,655	$ 9,785	$ 7,414
Weighted-average shares of common stock outstanding:				
Basic	21,554	21,429	21,519	21,422
Dilutive effect of common stock equivalents arising from stock options and nonvested stock awards	339	125	354	61
Diluted	21,893	21,554	21,873	21,483
Basic earnings per share	$ 0.22	$ 0.22	$ 0.45	$ 0.35
Diluted earnings per share	$ 0.22	$ 0.22	$ 0.45	$ 0.35

The computation of diluted earnings per share for the 13 weeks ended July 4, 2010, the 26 weeks ended July 4, 2010, the 13 weeks ended June 28, 2009 and the 26 weeks ended June 28, 2009 does not include share option awards in the amounts of 890,462, 890,763, 1,389,996 and 1,403,855, respectively, that were outstanding and antidilutive (i.e., including such share option awards would result in higher earnings per share), since the exercise prices of these share option awards exceeded the average market price of the Company s common shares.

No nonvested share awards were antidilutive for the 13 weeks and 26 weeks ended July 4, 2010. The computation of diluted earnings per share for the 13 weeks and the 26 weeks ended June 28, 2009 does not include nonvested share awards in the amounts of 2,637 and 1,319 shares, respectively, that were outstanding and antidilutive.

The Company did not repurchase any shares of its common stock in fiscal 2009 or the first half of fiscal 2010. Since the inception of its initial share repurchase program in May 2006 through

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

July 4, 2010, the Company has repurchased a total of 1,369,085 shares for $20.8 million, leaving a total of $14.2 million available for share repurchases under the current share repurchase program.

(9) Commitments and Contingencies

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

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

(10) Subsequent Event

In the third 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 September 15, 2010 to stockholders of record as of September 1, 2010.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the accompanying condensed consolidated balance sheet of Big 5 Sporting Goods Corporation and subsidiaries (the Corporation) as of July 4, 2010 and the related condensed consolidated statements of operations for the 13 week and 26 week periods ended July 4, 2010 and June 28, 2009, and cash flows for the 26 week periods ended July 4, 2010 and June 28, 2009. These interim financial statements are the responsibility of the Corporation s management.

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

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

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

/s/ DELOITTE & TOUCHE LLP
Los Angeles, California
August 6, 2010

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

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

Overview

We are a leading sporting goods retailer in the western United States, operating 388 stores in 12 states under the name Big 5 Sporting Goods at July 4, 2010. We provide a full-line product offering in a traditional sporting goods store format that averages approximately 11,000 square feet. Our product mix includes athletic shoes, apparel and accessories, as well as a broad selection of outdoor and athletic equipment for team sports, fitness, camping, hunting, fishing, tennis, golf, snowboarding and in-line skating.

Executive Summary

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

Net income for the second quarter of fiscal 2010 increased 2.1% to $4.8 million, or $0.22 per diluted share, compared to $4.7 million, or $0.22 per diluted share, for the second quarter of fiscal 2009. The increase in net income primarily reflected higher net sales year over year, partially offset by deleveraging of selling and administrative expense.

Net sales for the second quarter of fiscal 2010 increased 1.8% to $219.8 million compared to $216.0 million for the second quarter of fiscal 2009. The increase in net sales was attributable to increases in new store sales and the benefit of a calendar shift as discussed in Results of Operations below.

Gross profit as a percentage of net sales for the second quarter of fiscal 2010 increased by approximately 20 basis points to 33.2% compared to the second quarter of fiscal 2009, primarily as a result of slightly higher merchandise margins and lower distribution costs as a percentage of net sales.

Selling and administrative expense for the second quarter of fiscal 2010 increased 3.1% to $65.0 million, or 29.6% of net sales, compared to $63.0 million, or 29.2% of net sales, for the second quarter of fiscal 2009. The increase was primarily

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attributable to higher store-related expense, excluding occupancy, as a result of new store openings.

Operating income for the second quarter of fiscal 2010 decreased 4.1% to $8.0 million, or 3.6% of net sales, compared to $8.3 million, or 3.8% of net sales, for the second quarter of fiscal 2009. The lower operating income primarily reflects higher selling and administrative expense, due largely to higher store-related expense as a result of new store openings.

Results of Operations

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

13 Weeks Ended July 4, 2010 Compared to 13 Weeks Ended June 28, 2009

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

	13 Weeks Ended			
	July 4, 2010		June 28, 2009	
	(In thousands, except percentages)			
Net sales	$ 219,828	100.0%	$ 216,040	100.0%
Cost of sales [1]	146,862	66.8	144,709	67.0
Gross profit	72,966	33.2	71,331	33.0
Selling and administrative expense [2]	65,002	29.6	63,029	29.2
Operating income	7,964	3.6	8,302	3.8
Interest expense	363	0.1	608	0.2
Income before income taxes	7,601	3.5	7,694	3.6
Income taxes	2,849	1.3	3,039	1.4
Net income	$ 4,752	2.2%	$ 4,655	2.2%

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

common area maintenance, property taxes and insurance.

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

Net Sales. Net sales increased by $3.8 million, or 1.8%, to $219.8 million in the 13 weeks ended July 4, 2010 from $216.0 million in the second quarter last year. The change in net sales reflected the following:

New store sales increased, reflecting the opening of seven new stores, net of relocations, since March 29, 2009.

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- Net sales for the second quarter of fiscal 2010 reflected the benefit of a calendar shift, as we transition to a 52-week fiscal year in 2010 from a 53-week fiscal year in 2009. This calendar shift resulted in net sales for a higher volume sales week leading up to the Fourth of July holiday being included in the second quarter of fiscal 2010, while net sales for this period were included in the third quarter of fiscal 2009. Additionally, compared to the second quarter of fiscal 2009, net sales for the second quarter of fiscal 2010 benefited from an extra sales day due to the shift of the Easter holiday, during which our stores are closed, into the first quarter of fiscal 2010.
- Customer traffic into our retail stores increased for the 13 weeks ended July 4, 2010 versus the comparable 13 week period in the prior year.
- Same store sales decreased 0.5% in the 13 weeks ended July 4, 2010 versus the comparable 13 week period in the prior year, reversing a trend of four consecutive quarters of same store sales growth which began in the second quarter of fiscal 2009. Our sales were negatively impacted by the sluggish pace of the economic recovery and unfavorable weather comparisons in many of our markets. Same store sales for a period reflect net sales from stores that operated throughout the period as well as the corresponding prior period; e.g., comparable quarterly reporting periods for quarterly comparisons.

Store count at July 4, 2010 was 388 versus 382 at June 28, 2009. We opened two new stores in the 13 weeks ended July 4, 2010, while we opened one new store in the 13 weeks ended June 28, 2009. We anticipate opening between 10 and 15 net new stores in fiscal 2010.

Gross Profit. Gross profit increased by $1.7 million, or 2.3%, to $73.0 million, or 33.2% of net sales, in the 13 weeks ended July 4, 2010 from $71.3 million, or 33.0% of net sales, in the 13 weeks ended June 28, 2009. The change in gross profit was primarily attributable to the following:

- Net sales increased by $3.8 million in the 13 weeks ended July 4, 2010 compared to the 13 weeks ended June 28, 2009.
- Merchandise margins, which exclude buying, occupancy and distribution costs, increased approximately 10 basis points versus the second quarter last year, primarily reflecting shifts in product sales mix.
- Store occupancy costs increased by $0.7 million, or approximately 20 basis points, year over year, primarily reflecting the expense for new stores.
- Distribution costs, including costs capitalized into inventory, decreased $0.1 million, or 1.2%, compared to the same period last year. Distribution costs as a percentage of net sales decreased approximately 15 basis points year over year.

Selling and Administrative Expense. Selling and administrative expense increased by $2.0 million to $65.0 million, or 29.6% of net sales, in the 13 weeks ended July 4, 2010 from $63.0 million, or 29.2% of net sales, in the same period last year. The increase in selling and administrative expense compared to the prior year was largely attributable to an increase in store-related expense, excluding occupancy, of $1.6 million due mainly to higher labor and operating costs to support the increase in store count.

Interest Expense. Interest expense decreased by $0.2 million, or 40.2%, to $0.4 million in the 13 weeks ended July 4, 2010 from $0.6 million in the same period last year. This decrease was due to a reduction in average debt levels of approximately $17.0 million to $57.4 million in the second quarter of fiscal 2010 from $74.4 million in the second quarter

last year, combined with a reduction in average interest rates of approximately 70 basis points to 1.5% in the second quarter of fiscal 2010 from 2.2% in the same period last year.

Income Taxes. The provision for income taxes was $2.8 million for the 13 weeks ended July 4, 2010 and $3.0 million for the 13 weeks ended June 28, 2009. Our effective tax rate was 37.5% for the second quarter of fiscal 2010 compared with 39.5% for the second quarter of fiscal 2009. Our lower effective tax rate for the second quarter of fiscal 2010 compared to the same period last year primarily reflects an increased benefit from income tax credits for the current year.

26 Weeks Ended July 4, 2010 Compared to 26 Weeks Ended June 28, 2009

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

	26 Weeks Ended			
	July 4, 2010		June 28, 2009	
	(In thousands, except percentages)			
Net sales	$ 438,349	100.0%	$ 426,331	100.0%
Cost of sales [1]	293,833	67.0	287,929	67.5
Gross profit	144,516	33.0	138,402	32.5
Selling and administrative expense [2]	128,065	29.2	124,867	29.3
Operating income	16,451	3.8	13,535	3.2
Interest expense	767	0.2	1,321	0.3
Income before income taxes	15,684	3.6	12,214	2.9
Income taxes	5,899	1.4	4,800	1.1
Net income	$ 9,785	2.2%	$ 7,414	1.8%

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

common area maintenance, property taxes and insurance.

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

Net Sales. Net sales increased by $12.0 million, or 2.8%, to $438.3 million in the 26 weeks ended July 4, 2010 from $426.3 million in the 26 weeks ended June 28, 2009. The increase in net sales was primarily attributable to the following:

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

Net sales for the first half of fiscal 2010 reflected the benefit of a calendar shift, as we transition to a 52-week fiscal year in 2010 from a 53-week fiscal year in 2009. This calendar shift resulted in net sales for a higher volume sales week leading up to the Fourth of July holiday being included in the first half of fiscal 2010, while net sales for this period were included in the third quarter of fiscal 2009.

Same store sales increased 0.9% in the 26 weeks ended July 4, 2010 versus the comparable 26 week period in the prior year. Same store sales for a period reflect net sales from stores that operated throughout the period as well as the corresponding prior period; e.g., comparable year-to-date reporting periods for year-to-date comparisons.

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Customer traffic into our retail stores increased for the 26 weeks ended July 4, 2010 when compared with the 26 weeks ended June 28, 2009.

Store count at July 4, 2010 was 388 versus 382 at June 28, 2009. We opened four new stores, net of relocations, in the 26 weeks ended July 4, 2010, while we opened one new store in the 26 weeks ended June 28, 2009. We anticipate opening between 10 and 15 net new stores in fiscal 2010.

Gross Profit. Gross profit increased by $6.1 million, or 4.4%, to $144.5 million, or 33.0% of net sales, in the 26 weeks ended July 4, 2010 from $138.4 million, or 32.5% of net sales, in the 26 weeks ended June 28, 2009. The change in gross profit was primarily attributable to the following:

Net sales increased by $12.0 million in the 26 weeks ended July 4, 2010 compared to the 26 weeks ended June 28, 2009.

Merchandise margins, which exclude buying, occupancy and distribution costs, increased approximately 15 basis points year over year, primarily reflecting shifts in product sales mix.

Distribution costs, including costs capitalized into inventory, decreased $1.2 million compared to the same period last year. Distribution costs as a percentage of net sales decreased approximately 40 basis points year over year.

Store occupancy costs increased by $1.3 million, or approximately 5 basis points, year over year, primarily reflecting the expense for new stores.

Selling and Administrative Expense. Selling and administrative expense increased by $3.2 million to $128.1 million, or 29.2% of net sales, in the 26 weeks ended July 4, 2010 from $124.9 million, or 29.3% of net sales, in the same period last year. The increase in selling and administrative expense compared to the same period last year was largely attributable to an increase in store-related expense, excluding occupancy, of $2.8 million due mainly to higher labor and operating costs to support the increase in store count. This increase, combined with an increase of $0.8 million in various administrative costs, was partially offset by a decline in advertising expense of $0.4 million.

Interest Expense. Interest expense decreased by $0.5 million, or 41.9%, to $0.8 million in the 26 weeks ended July 4, 2010 from $1.3 million in the same period last year. This decrease was due to a reduction in average debt levels of approximately $28.1 million to $56.8 million in the first half of fiscal 2010 from $84.9 million in the same period last year, combined with a reduction in average interest rates of approximately 70 basis points to 1.6% in the first half of fiscal 2010 from 2.3% in the same period last year.

Income Taxes. The provision for income taxes was $5.9 million for the 26 weeks ended July 4, 2010 and $4.8 million for the 26 weeks ended June 28, 2009, primarily reflecting our higher pre-tax income. Our effective tax rate was 37.6% for the first half of fiscal 2010 compared with 39.3% for the first half of fiscal 2009. Our lower effective tax rate

for the first half of fiscal 2010 compared to the same period last year primarily reflects an increased benefit from income tax credits for the current year.

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. Our existing financing agreement is scheduled to expire in March of 2011. We expect to replace our existing financing agreement with a new facility later this year. We believe our cash on hand, future funds from operations and borrowings from our existing revolving credit facility will be sufficient to fund our cash requirements through the remainder of fiscal 2010. There is no assurance, however, that we will be able to generate sufficient cash flow, maintain our ability to borrow under our existing revolving credit facility or successfully negotiate a new revolving credit facility.

We ended the first half of fiscal 2010 with $5.6 million of cash and cash equivalents compared with $3.4 million at the end of the same period in fiscal 2009. Our cash flows from operating, investing and financing activities for the 26 weeks ended July 4, 2010 and June 28, 2009 were as follows:

	26 Weeks Ended	
	July 4, 2010	**June 28, 2009**
	(In thousands)	
Net cash provided by (used in):		
Operating activities	$ 422	$ 28,534
Investing activities	(4,983)	(2,198)
Financing activities	4,377	(32,043)
Net decrease in cash and cash equivalents	$ (184)	$ (5,707)

Operating Activities. Net cash provided by operating activities for the 26 weeks ended July 4, 2010 and June 28, 2009 was $0.4 million and $28.5 million, respectively. The decrease in cash provided by operating activities for the 26 weeks ended July 4, 2010 compared to the same period last year primarily reflects higher funding of merchandise inventory purchases along with reduced accounts payable leverage, due in part to the timing of inventory receipts and payments, and a smaller reduction in accounts receivable, partially offset by the favorable impact of higher net income. Our increase in inventory purchasing during the first half of this year over the first half of last year primarily reflected an anticipated improvement in business conditions, increased availability of certain products this year, opportunistic buying and bringing in seasonal product earlier to avoid potential delivery delays.

Investing Activities. Net cash used in investing activities for the 26 weeks ended July 4, 2010 and June 28, 2009 was $5.0 million and $2.2 million, respectively. Capital expenditures, excluding non-cash property and equipment acquisitions, represented substantially all of the net cash used in investing activities for both periods. This increase was primarily attributable to the resumption in store expansion activity, after a slowdown in fiscal

2009 due to the economic recession, and a corresponding increase in new store capital expenditures.

Financing Activities. Net cash provided by financing activities for the 26 weeks ended July 4, 2010 was $4.4 million and net cash used in financing activities for the 26 weeks ended June 28, 2009 was $32.0 million. For the 26 weeks ended July 4, 2010, cash was provided primarily from increased borrowings under our revolving credit facility, offset by cash used to pay dividends. For the 26 weeks ended June 28, 2009, cash was used primarily to pay down borrowings under our revolving credit facility and pay dividends.

As of July 4, 2010, we had revolving credit borrowings of $64.1 million and letter of credit commitments of $3.4 million outstanding under our financing agreement. These balances compare to revolving credit borrowings of $55.0 million and letter of credit commitments of $2.7 million outstanding as of January 3, 2010 and revolving credit borrowings of $72.6 million and letter of credit commitments of $3.2 million outstanding as of June 28, 2009. As of July 4, 2010, our revolving credit borrowings increased by 16.5% from the end of fiscal 2009 due primarily to funding of merchandise inventory purchases to replenish inventory levels following the year-end holiday selling season and the resumption of our store expansion.

Financing Agreement. Our financing agreement with The CIT Group/Business Credit, Inc. (CIT) and a syndicate of other lenders, as amended, originally provided for a line of credit up to $175.0 million. In the second quarter of fiscal 2010, we elected to permanently reduce the line of credit available under our existing financing agreement to $140.0 million as a cost saving measure. 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. 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 are subject to an early termination fee under the terms of the financing agreement, which is not expected to be material. 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 72.60% of the aggregate value of eligible inventory during October, November and December and 66.90% 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 July 4, 2010 and January 3, 2010, our total remaining borrowing capacity under the revolving credit facility, after subtracting letters of credit, was $72.5 million and $94.3 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. Additionally, if our 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%.

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Our dividend payments and stock repurchases, if any, 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.

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. 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 Securities and Exchange Commission (SEC). We are currently 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 existing financing agreement which has an initial termination date of March 20, 2011. We expect that the interest rate on our borrowings and amortization associated with financing fees will be higher in fiscal 2011 as a result of entering into a new financing agreement. Under our existing financing agreement, the LIBOR borrowing base 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 100 basis points. Because our existing financing agreement terminates on March 20, 2011, as of July 4, 2010 our outstanding debt associated with this agreement was classified as a current liability.

Future Capital Requirements. We had cash on hand of $5.6 million at July 4, 2010. We expect capital expenditures for the second half of fiscal 2010, excluding non-cash property and equipment acquisitions, to range from approximately $9.0 million to $12.0 million, primarily to fund the opening of new stores, store-related remodeling, distribution center equipment and computer hardware and software purchases. As a result of the economic recession, we slowed our store expansion efforts substantially in fiscal 2009 by opening only three net new stores. We anticipate opening between 10 and 15 net new stores in fiscal 2010.

During fiscal 2009 and for the first half of fiscal 2010, the Company paid quarterly cash dividends of $0.05 per share of outstanding common stock. In the third 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 September 15, 2010 to stockholders of record as of September 1, 2010.

As of July 4, 2010, a total of $14.2 million remained available for share repurchases under our share repurchase program. We did not make any share repurchases in fiscal 2009 or the first half of fiscal 2010 due to the economic recession and expect limited, if any, share repurchases in fiscal 2010.

We believe we will be able to fund our cash requirements from cash on hand, operating cash flows and borrowings from our existing revolving credit facility through the remainder of fiscal 2010. However, our ability to satisfy such cash requirements depends upon our future performance, which in turn is subject to general economic conditions and regional risks, and to financial, business and other factors affecting our operations, including factors beyond our control. There is no assurance that we will be able to generate sufficient cash flow, maintain our ability to borrow under our existing revolving credit facility or successfully negotiate a new 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 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).

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

Issued and outstanding letters of credit were $3.4 million at July 4, 2010, and were related primarily to importing merchandise and funding insurance program liabilities.

Our material contractual obligations include capital lease obligations, borrowings under our revolving credit facility, certain occupancy costs related to our leased properties and other liabilities. Capital lease obligations consist principally of leases for some of our distribution center delivery tractors, management information systems hardware and point-of-sale equipment for our stores. Our revolving credit facility debt fluctuates daily depending

on operating, investing and financing cash flows. Occupancy costs include estimated property maintenance fees and property taxes for our stores, distribution center and corporate headquarters. Other liabilities consist principally of actuarially-determined reserve estimates related to workers compensation claims, a contractual obligation for the surviving spouse of Robert W. Miller, our co-founder, and asset retirement obligations related to the removal of leasehold improvements for certain stores upon termination of their leases.

Included in the Liquidity and Capital Resources section of Part II, Item 7, *Management s Discussion and Analysis of Financial Condition and Results of Operations*, of our Annual Report on Form 10-K/A for the fiscal year ended January 3, 2010, is a discussion of our future obligations and commitments as of January 3, 2010. In the 26 weeks ended July 4, 2010, our revolving credit borrowings increased by 16.5% from the end of fiscal 2009, due primarily to funding of merchandise inventory purchases to replenish inventory levels following the year-end holiday selling season and the resumption of our store expansion. We entered into new operating lease agreements in relation to our business operations during the 26 weeks ended July 4, 2010, but do not believe that these operating leases would materially change our contractual obligations or commitments presented as of January 3, 2010.

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

Critical Accounting Estimates

As discussed in Part II, Item 7, *Management s Discussion and Analysis of Financial Condition and Results of Operations*, of our Annual Report on Form 10-K/A for the fiscal year ended January 3, 2010, we consider our estimates on inventory valuation, impairment of long-lived assets and self-insurance reserves to be the most critical in understanding the judgments that are involved in preparing our consolidated financial statements. There have been no significant changes to these estimates in the 26 weeks ended July 4, 2010.

Seasonality and Impact of Inflation

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

In the first half of fiscal 2009, we experienced increasing inflation in the purchase cost of certain products, while during the last half of fiscal 2009 the trend of inflation in

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

Recently Issued Accounting Updates

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

Forward-Looking Statements

This document includes certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements relate to, among other things, our financial condition, our results of operations, our growth strategy and the business of our company generally. In some cases, you can identify such statements by terminology such as may , could , project , estimate , potential , continue , should , e anticipates , believes , intends or other such terminology. These forward-looking statements involve known anc 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 and our ability to refinance our existing financing agreement on favorable terms or at all, and 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 II, Item 1A, *Risk Factors*, in this report and in Part I, Item 1A, *Risk Factors*, in our Annual Report on Form 10-K/A and other filings with the SEC. 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 3. Quantitative and Qualitative Disclosures About Market Risk

We are subject to risks resulting from interest rate fluctuations since interest on our borrowings under our 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 July 4, 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 July 4, 2010.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

During the fiscal quarter ended July 4, 2010, no changes occurred with respect to our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

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Item 1A. Risk Factors

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

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. (Removed and Reserved)

Item 5. Other Information

None.

Item 6. Exhibits

(a) Exhibits

Exhibit Number	Description of Document
15.1	Independent Auditors Awareness Letter Regarding Interim Financial Statements.
31.1	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certification of Chief Executive Officer.
32.2	Section 1350 Certification of Chief Financial Officer.

SIGNATURES

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

BIG 5 SPORTING GOODS CORPORATION,
a Delaware corporation

Date: August 6, 2010

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

Date: August 6, 2010

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

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