

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 26, 2004

OR

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

For the transition period from _____ to _____

Commission file number: 000-49850

BIG 5 SPORTING GOODS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

95-4388794

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

2525 East E1 Segundo Boulevard
E1 Segundo, California

(Address of Principal Executive Offices)

90245

(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

There were 22,672,627 shares of common stock with a par value of \$0.01 per share outstanding at October 29, 2004.

BIG 5 SPORTING GOODS CORPORATION

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BIG 5 SPORTING GOODS CORPORATION

Condensed Consolidated Balance Sheets
(unaudited)
(in thousands, except share and per share data)

	September 26, 2004	December 28, 2003
Assets		
Current assets:		
Cash	\$ 6,402	\$ 9,030
Trade and other receivables, net	3,858	11,522
Merchandise inventories	191,332	179,555
Prepaid expenses	5,614	5,017
Total current assets	<u>207,206</u>	<u>205,124</u>
Net property and equipment, net	47,444	46,952
Deferred income taxes, net	9,781	9,628
Leasehold interest, net	2,657	4,022
Other assets, net	1,257	1,866
Goodwill	4,433	4,433
Total assets	<u>\$ 272,778</u>	<u>\$ 272,025</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 55,374	\$ 76,004
Accrued expenses	47,489	54,717
Total current liabilities	<u>102,863</u>	<u>130,721</u>
Deferred rent	11,577	11,654
Long-term debt	105,646	99,686
Total liabilities	<u>220,086</u>	<u>242,061</u>
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.01 par value. Authorized 50,000,000 shares; issued and outstanding 22,670,827 shares and 22,663,927 shares at September 26, 2004 and December 28, 2003, respectively	227	227
Additional paid-in capital	84,078	84,003
Accumulated deficit	(31,613)	(54,266)
Total stockholders' equity	<u>52,692</u>	<u>29,964</u>
Total liabilities and stockholders' equity	<u>\$ 272,778</u>	<u>\$ 272,025</u>

See accompanying notes to condensed consolidated financial statements.

BIG 5 SPORTING GOODS CORPORATIONCondensed Consolidated Statements of Operations
(unaudited)
(in thousands, except per share data)

	13 Weeks Ended		39 Weeks Ended	
	September 26, 2004	September 28, 2003	September 26, 2004	September 28, 2003
Net sales	\$ 195,818	\$ 183,275	\$ 561,310	\$ 517,917
Cost of goods sold, buying and occupancy, excluding depreciation and amortization shown separately below	<u>125,406</u>	<u>118,065</u>	<u>357,579</u>	<u>332,260</u>
Gross profit	<u>70,412</u>	<u>65,210</u>	<u>203,731</u>	<u>185,657</u>
Operating expenses:				
Selling and administrative	52,017	48,348	151,632	139,991
Depreciation and amortization	<u>2,865</u>	<u>2,585</u>	<u>8,366</u>	<u>7,628</u>
Total operating expenses	<u>54,882</u>	<u>50,933</u>	<u>159,998</u>	<u>147,619</u>
Operating income	15,530	14,277	43,733	38,038
Redemption premium and unamortized financing fees related to redemption of debt	—	—	792	1,483
Interest expense, net	<u>1,628</u>	<u>2,848</u>	<u>5,203</u>	<u>8,744</u>
Income before income taxes	13,902	11,429	37,738	27,811
Income taxes	<u>5,551</u>	<u>4,685</u>	<u>15,085</u>	<u>11,402</u>
Net income	<u>\$ 8,351</u>	<u>\$ 6,744</u>	<u>\$ 22,653</u>	<u>\$ 16,409</u>
Earnings per share:				
Basic	<u>\$ 0.37</u>	<u>\$ 0.30</u>	<u>\$ 1.00</u>	<u>\$ 0.72</u>
Diluted	<u>\$ 0.37</u>	<u>\$ 0.30</u>	<u>\$ 0.99</u>	<u>\$ 0.72</u>
Shares used to calculate earnings per share:				
Basic	<u>22,670</u>	<u>22,664</u>	<u>22,667</u>	<u>22,646</u>
Diluted	<u>22,781</u>	<u>22,781</u>	<u>22,788</u>	<u>22,720</u>

See accompanying notes to condensed consolidated financial statements.

BIG 5 SPORTING GOODS CORPORATIONConsolidated Condensed Statements of Cash Flows
(unaudited)
(dollars in thousands)

	39 Weeks Ended	
	September 26, 2004	September 28, 2003
Cash flows from operating activities:		
Net income	\$ 22,653	\$ 16,409
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,366	7,628
Deferred income taxes, net	(153)	0
Amortization of deferred finance charge and discounts	307	452
Redemption premium and unamortized financing fees related to redemption of debt	792	1,483
Loss on disposal of equipment and leasehold interest	68	140
Change in assets and liabilities:		
Merchandise inventories	(11,777)	(8,852)
Trade and other receivables, net	7,664	5,133
Prepaid expenses and other assets	(507)	(537)
Accounts payable	(9,878)	(2,481)
Accrued expenses	(7,228)	(4,479)
Net cash provided by operating activities	10,307	14,896
Cash flows from investing activities — purchase of property and equipment	(7,638)	(4,810)
Cash flows from financing activities:		
Net borrowings under revolving credit facilities and bank overdraft	10,176	7,518
Repayment of 10.875% senior notes	(15,548)	(21,095)
Proceeds from issuance of common stock	75	—
Net cash used in financing activities	(5,297)	(13,577)
Net decrease in cash	(2,628)	(3,491)
Cash at beginning of period	9,030	9,441
Cash at end of period	\$ 6,402	\$ 5,950
Supplemental disclosures of cash flow information:		
Interest paid	\$ 4,218	\$ 6,382
Income taxes paid	\$ 17,406	\$ 10,099

See accompanying notes to condensed consolidated financial statements.

BIG 5 SPORTING GOODS CORPORATION

Notes to Condensed Consolidated Financial Statements
(unaudited)

(1) Basis of Presentation and Description of Business

We operate in one business segment, as a sporting goods retailer under the Big 5 Sporting Goods name carrying a broad range of hardlines, softlines and footwear, operating 298 stores at September 26, 2004 in California, Washington, Arizona, Oregon, Texas, New Mexico, Nevada, Utah, Idaho and Colorado. We are a holding company that operates our business through Big 5 Corp., our wholly owned subsidiary, and Big 5 Services Corp., which is a wholly owned subsidiary of Big 5 Corp. Big 5 Services Corp. began operations at the beginning of fiscal 2004 to centralize the issuance and administration of gift certificates and gift cards.

In our opinion, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, which in the opinion of management are necessary to present fairly and in accordance with accounting principles generally accepted in the United States of America ("GAAP") the financial position as of September 26, 2004 and December 28, 2003, the results of operations for the 13 and 39 weeks ended September 26, 2004 and September 28, 2003 and cash flows for the 39 weeks ended September 26, 2004 and September 28, 2003. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission; however, we believe that the disclosures are adequate to make the information presented not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements included in our Annual Report on Form 10-K (as amended by the Form 10-K/A Amendment No. 1) for the fiscal year ended December 28, 2003.

(2) Debt Redemption

On October 27, 2004, we announced that we would redeem \$10.0 million principal amount of our 10.875% senior notes due 2007, using funds available under our revolving credit facility. Following the redemption, which is scheduled to be completed on November 30, 2004, the outstanding balance of our 10.875% senior notes will be reduced to a face amount of \$23.1 million from an original face amount of \$131.0 million when the notes were issued in November 1997.

We also redeemed \$20.0 million, \$35.0 million and \$15.0 million face value of our 10.875% senior notes due 2007 during the first quarter of fiscal 2003, the fourth quarter of fiscal 2003 and the second quarter of fiscal 2004, respectively, using borrowings under our credit facility.

(3) Quarterly Dividend

On October 27, 2004, our Board of Directors declared a cash dividend of \$0.07 per share, which will be paid on December 15, 2004, to stockholders of record as of December 1, 2004.

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

(in thousands except earnings per share data)

	13 weeks ended		39 weeks ended	
	September 26, 2004	September 28, 2003	September 26, 2004	September 28, 2003
Income available to common stockholders	\$ 8,351	\$ 6,744	\$ 22,653	\$ 16,409
Weighted average shares of common stock outstanding:				
Basic	22,670	22,664	22,667	22,646
Dilutive effect of common stock options	111	117	121	55
Dilutive effect of outstanding warrant	—	—	—	19
Diluted	22,781	22,781	22,788	22,720
Basic earnings per share	\$ 0.37	\$ 0.30	\$ 1.00	\$ 0.72
Diluted earnings per share	\$ 0.37	\$ 0.30	\$ 0.99	\$ 0.72

The computation of diluted earnings for the 13 and 39 weeks ended September 26, 2004 does not include 333,200 options that were outstanding at the end of the period. In addition, the computation of diluted earnings for the 39 weeks ended September 28, 2003 does not include 59,000 options that were outstanding at the end of the period. The exercise price of these options was greater than the average market price of our common stock during the relevant reporting periods and thus would have been antidilutive. The outstanding warrant was exercised in the first quarter of fiscal 2003.

(5) Stock-Based Compensation

As permitted under Statement of Financial Accounting Standards (“SFAS”) No. 123, *Accounting for Stock-Based Compensation*, as amended, we continue to apply the provisions of Accounting Principles Board (“APB”) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations and provide pro forma net income and pro forma earnings per share disclosures for employee stock option grants made in 1995 and future years as if the fair-value-based method defined in SFAS No. 123 had been applied. SFAS No. 123 was amended by SFAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure – An Amendment of FASB Statement No. 123*, to provide alternative methods of transition for a voluntary change to the fair-value-based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee

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compensation and the effect of the method used on reported results. Therefore, compensation expense for stock options issued to employees is recorded on the date of grant only if the then-current market price of the underlying stock exceeded the exercise price. If we had determined compensation cost based upon the fair value at the grant date for our stock options under SFAS No. 123 using the Black Scholes option pricing model, pro forma net income and pro forma net income per share would have been as follows:

	13 Weeks Ended		39 Weeks Ended	
	September 26, 2004	September 28, 2003	September 26, 2004	September 28, 2003
	(dollars in thousands, except per share data)			
Net income, as reported	\$ 8,351	\$ 6,744	\$ 22,653	\$ 16,409
Deduct: Total stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects	225	107	599	275
Pro forma net income	\$ 8,126	\$ 6,637	\$ 22,054	\$ 16,134
Earnings per share:				
Basic – as reported	0.37	0.30	1.00	0.72
Basic – pro forma	0.36	0.29	0.97	0.71
Diluted – as reported	0.37	0.30	0.99	0.72
Diluted – pro forma	0.36	0.29	0.97	0.71

(6) Related Party Transactions

Prior to September 1992, Big 5 Corp. was a wholly owned subsidiary of Thrifty Corporation (“Thrifty”), which was in turn a wholly owned subsidiary of Pacific Enterprises (“PE”). In December 1996, Thrifty was acquired by Rite Aid Corp. (“Rite Aid”).

As a result of the Company’s prior relationship with Thrifty and its affiliates, the Company continues to maintain certain relationships with Rite Aid, PE and PE’s successor company, Sempra Energy. These relationships include continuing indemnification obligations of PE to the Company for certain environmental matters, agreements between the Company and PE with respect to various tax matters and obligations under ERISA, including the allocation of various tax obligations relating to the inclusion of the Company and each member of the affiliated group of which the Company was a subsidiary in certain consolidated and/or unitary tax returns of PE, and subleases. Green Equity Investors III, L.P., an affiliate of Leonard Green & Partners, L.P., holds convertible preferred stock in Rite Aid, which, if converted, would represent approximately 13.5% of Rite Aid’s outstanding stock. Green Equity Investors, L.P., an affiliate of Leonard Green & Partners, L.P., owned more than 27% of our outstanding common stock until it sold substantially all of its shares in a secondary public offering in November 2003.

(7) Contingencies

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

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

BASIS OF REPORTING

Net Sales

Net sales consist of sales from all stores operated during the period presented, net of merchandise returns. Same store sales for a period reflect net sales from stores operated throughout that period as well as the corresponding prior period. New store sales for a period reflect net sales from stores opened in that period as well as net sales from stores opened during the prior fiscal year. Stores that are relocated during any period are treated as new stores.

During the fiscal 2004 third quarter, the Company changed its accounting for sales returns by establishing an allowance for estimated sales returns. This resulted in a cumulative adjustment in the third quarter to establish the allowance, which will be adjusted based on the Company's estimated sales returns at the end of each quarter going forward. The cumulative effect of this accounting change resulted in a reduction of approximately \$1.9 million in net sales, \$0.7 million in gross profit, and \$0.4 million in net income, or \$0.02 per diluted share, for the third quarter and nine months ended September 26, 2004. In prior periods, the Company's net sales were reported net of actual sales returns. The difference between recording actual sales returns and establishing an allowance for sales returns is not considered to have had a material impact on the Company's prior or current period financial statements.

Gross Profit

Gross profit is comprised of net sales less all costs of sales, including the cost of merchandise, inventory markdowns, inventory shrinkage, inbound freight, distribution and warehousing, payroll for our buying personnel and store and corporate office occupancy costs. Store and corporate office occupancy costs include rent, contingent rents, common area maintenance, real estate property taxes and property insurance. Costs of sales does not include depreciation and amortization.

Selling and Administrative

Selling and administrative includes store management and corporate expenses, including non-buying personnel payroll, employment taxes, employee benefits, management information systems, advertising, insurance other than property insurance, legal, store pre-opening expenses and other corporate level expenses. Store pre-opening expenses include store-level payroll, grand opening event marketing, travel, supplies and other store opening expenses.

Depreciation and Amortization

Depreciation and amortization consists primarily of the depreciation of leasehold improvements, fixtures and equipment owned by us and amortization of leasehold interest.

DISCUSSION OF CRITICAL ACCOUNTING POLICIES

In the ordinary course of business, we have made a number of estimates and assumptions relating to the reporting of results of operations and financial condition in the preparation of our financial statements in conformity with accounting principles generally accepted in the United States. Actual results could differ significantly from those estimates under different assumptions and conditions. We believe that the following discussion addresses our critical accounting policies, which are those that are most important to the portrayal of our financial condition.

Valuation of Inventory

We value our inventories at the lower of cost or market using the weighted average cost method that approximates the first-in, first-out (“FIFO”) method. Management has evaluated the current level of inventories in comparison to planned sales volume and other factors and, based on this evaluation, has recorded adjustments to inventory and cost of goods sold for estimated decreases in the net realizable value of inventory. These adjustments 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. We are not aware of any events or changes in demand or price that would indicate to us that our inventory valuation may be materially inaccurate at this time.

Valuation of Long-Lived Assets

Long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to future net cash flows estimated by us to be generated by these assets. If such assets are considered to be impaired, the impairment to be recognized is the amount by which the carrying amount of the assets exceeds the fair value of the assets. We are not aware of any events or changes in circumstances that would indicate to us that our long-lived assets are impaired or that would require an impairment consideration at this time.

RESULTS OF OPERATIONS

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

13 Weeks Ended September 26, 2004 Compared to 13 Weeks Ended September 28, 2003

The following table sets forth selected items from our operating results as a percentage of our net sales for the periods indicated:

	13 Weeks Ended			
	September 26, 2004	(unaudited)		September 28, 2003
		(dollars in thousands)		
Net sales	\$ 195,818	100.0%	\$ 183,275	100.0%
Cost of goods sold	125,406	64.0	118,065	64.4
Gross profit	70,412	36.0	65,210	35.6
Operating expenses:				
Selling and administrative	52,017	26.6	48,348	26.4
Depreciation and amortization	2,865	1.5	2,585	1.4
Total operating expenses	54,882	28.1	50,933	27.8
Operating income	15,530	7.9	14,277	7.8
Interest expense, net	1,628	0.8	2,848	1.6
Income before income taxes	13,902	7.1	11,429	6.2
Income taxes	5,551	2.8	4,685	2.6
Net income	\$ 8,351	4.3%	\$ 6,744	3.7%

1. Net Sales. Net sales increased by \$12.5 million, or 6.8%, to \$195.8 million in the 13 weeks ended September 26, 2004 from \$183.3 million in the same period last year. This growth reflected an increase of \$4.8 million in same store sales and an increase of \$8.9 million in new store sales, which reflected the opening of 25 new stores since June 29, 2003. The remaining variance was attributable to net sales from closed stores. Same store sales increased 2.6% in the 13 weeks ended September 26, 2004 versus the same period last year, representing the thirty-fifth consecutive quarterly increase in same store sales over comparable prior periods. This 2.6% increase in same store sales was attributable to higher sales in each of our three major product categories of footwear, hard goods and apparel. Store count at September 26, 2004 was 298 versus 282 at September 28, 2003. We opened three new stores in the 13 weeks ended September 26, 2004 and we opened seven new stores in the 13 weeks ended September 28, 2003. We expect to open 11 new stores during the fourth quarter of fiscal 2004.

During the fiscal 2004 third quarter, the Company changed its accounting for sales returns by establishing an allowance for estimated sales returns. This resulted in a cumulative adjustment in the third quarter to establish the allowance, which will be adjusted based on the Company's estimated sales returns at the end of each quarter going forward.

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The cumulative effect of this accounting change resulted in a reduction of approximately \$1.9 million in net sales. The implementation of the sales return allowance negatively impacted same store sales growth versus the same quarter last year by 1.0%. In prior periods, the Company's net sales were reported net of actual sales returns. The difference between recording actual sales returns and establishing an allowance for sales returns is not considered to have had a material impact on the Company's prior or current period financial statements.

2. **Gross Profit.** Gross profit increased by \$5.2 million, or 8.0%, to \$70.4 million in the 13 weeks ended September 26, 2004 from \$65.2 million in the same period last year. Gross profit margin was 36.0% in the 13 weeks ended September 26, 2004 compared to 35.6% in the same period last year. We achieved higher product selling margin comparisons in each of our three major product categories. Warehouse payroll and benefit expenses increased \$0.6 million, or 0.2% of net sales, in order to support our store growth and to prepare for the new distribution center scheduled to open in fiscal 2005. In addition, higher gasoline prices negatively impacted trucking expense, which increased \$0.4 million, or 0.2% of net sales, versus the third quarter of last year.

3. **Selling and Administrative.** Selling and administrative expenses increased by \$3.7 million, or 7.6%, to \$52.0 million in the 13 weeks ended September 26, 2004 from \$48.3 million in the same period last year. The increase was driven by a \$2.4 million increase in store-related expenses, including payroll and payroll taxes, as a result of store growth, as well as increased employee health benefit costs. Advertising expense increased by \$0.8 million due to the growth in our store base since the same period last year. The remaining difference resulted from other administrative costs, such as corporate payroll and benefit expense. When measured as a percentage of net sales, selling and administrative expenses were 26.6% for the 13 weeks ended September 26, 2004 and 26.4% for the 13 weeks ended September 28, 2003.

4. **Depreciation and Amortization.** Depreciation and amortization expense increased \$0.3 million, or 10.8%, to \$2.9 million for the 13 weeks ended September 26, 2004 from \$2.6 million for the same period last year, primarily due to the increase in store count to 298 stores at the end of the third quarter of fiscal 2004 from 282 stores at the end of the third quarter of fiscal 2003.

5. **Interest Expense, Net.** Interest expense, net decreased by \$1.2 million, or 42.8%, to \$1.6 million in the 13 weeks ended September 26, 2004 from \$2.8 million in the same period last year. Interest expense benefited from the redemption of \$15.0 million of our 10.875% senior notes in the second quarter of fiscal 2004 and \$35.0 million in the fourth quarter of fiscal 2003 through borrowings from our lower cost credit facility. A reduction in overall debt levels since the beginning of fiscal 2003 also contributed to the decrease in interest expense.

6. **Income Taxes.** Provision for income taxes was \$5.6 million for the 13 weeks ended September 26, 2004 and \$4.7 million for the 13 weeks ended September 28, 2003. We accrue taxes at the statutory tax rate, which is reevaluated on an ongoing basis by management. In the 13 weeks ended September 26, 2004 we determined the Company's effective tax rate to be 40%, down from 41% in the 13 weeks ended September 28, 2003, due in part to the growth in our store base outside of California.

[Table of Contents](#)**39 Weeks Ended September 26, 2004 Compared to 39 Weeks Ended September 28, 2003**

The following table sets forth selected items from our operating results as a percentage of our net sales for the periods indicated:

	39 Weeks Ended			
	September 26, 2004		September 28, 2003	
	(unaudited) (dollars in thousands)			
Net sales	\$ 561,310	100.0%	\$ 517,917	100.0%
Cost of goods sold	357,579	63.7	332,260	64.2
Gross profit	203,731	36.3	185,657	35.8
Operating expenses:				
Selling and administrative	151,632	27.0	139,991	27.0
Depreciation and amortization	8,366	1.5	7,628	1.5
Total operating expenses	159,998	28.5	147,619	28.5
Operating income	43,733	7.8	38,038	7.3
Redemption premium and unamortized financing fees related to redemption of debt	792	0.1	1,483	0.3
Interest expense, net	5,203	0.9	8,744	1.7
Income before income taxes	37,738	6.7	27,811	5.4
Income taxes	15,085	2.7	11,402	2.2
Net income	\$ 22,653	4.0%	\$ 16,409	3.2%

1. Net Sales. Net sales increased by \$43.4 million, or 8.4%, to \$561.3 million in the first 39 weeks of fiscal 2004 from \$517.9 million in the same period last year. This growth reflected an increase of \$19.8 million in same store sales and an increase of \$26.6 million in new store sales, which reflected the opening of seven new stores, including two relocated stores, during the first 39 weeks of fiscal 2004 and 19 new stores in fiscal 2003. The remaining variance was attributable to net sales from closed stores. Same store sales increased 3.9% in the first 39 weeks of fiscal 2004 versus the same period last year. The increase in same store sales was attributable to higher sales in each of our three major product categories of footwear, hard goods and apparel. Store count at September 26, 2004 was 298 versus 282 at September 28, 2003. We opened seven new stores, including two relocated stores, in the first 39 weeks of fiscal 2004 and we opened eight new stores and closed one store in the first 39 weeks of fiscal 2003. We expect to open 11 new stores during the fourth quarter of fiscal 2004.

During the fiscal 2004 third quarter, the Company changed its accounting for sales returns by establishing an allowance for estimated sales returns. This resulted in a cumulative adjustment in the third quarter to establish the allowance, which will be adjusted based on the Company's estimated sales returns at the end of each quarter going forward. The cumulative effect of this accounting change resulted in a reduction of approximately \$1.9 million in net sales. The implementation of the sales return allowance negatively impacted same store sales growth versus the same period last year by 0.3%. In prior periods, the Company's net sales were reported net of actual sales returns. The difference between

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recording actual sales returns and establishing an allowance for sales returns is not considered to have had a material impact on the Company's prior or current period financial statements.

2. **Gross Profit.** Gross profit increased by \$18.1 million, or 9.7%, to \$203.7 million in the first 39 weeks of fiscal 2004 from \$185.7 million in the same period last year. Gross profit margin was 36.3% in the first 39 weeks of fiscal 2003 compared to 35.8% in the same period last year. We were able to achieve higher gross profit margins primarily due to improved product selling margin comparisons in each of our three major product categories, partially offset by a 0.2% increase in warehouse and distribution costs when measured as a percentage of sales. The 0.2% increase in warehouse and distribution costs was largely driven by higher warehouse payroll and benefit expenses to support our store growth and to prepare for the new distribution center scheduled to open in fiscal 2005. In addition, higher gasoline prices negatively impacted trucking expense.

3. **Selling and Administrative.** Selling and administrative expenses increased by \$11.6 million, or 8.3%, to \$151.6 million in the first 39 weeks of fiscal 2004 from \$140.0 million in the same period last year. The increase was driven by a \$7.4 million increase in store-related expenses, including payroll and payroll taxes, as a result of store growth, as well as increased employee health benefit costs. Advertising expense increased by \$2.6 million due to the growth in our store base since the same period last year. The remaining \$1.6 million increase resulted from other administrative costs, such as corporate payroll and benefit expense. When measured as a percentage of net sales, selling and administrative expenses were 27.0% for both the 39 weeks ended September 26, 2004 and the 39 weeks ended September 28, 2003.

4. **Depreciation and Amortization.** Depreciation and amortization expense increased by \$0.7 million, or 9.7%, to \$8.4 million in the first 39 weeks of fiscal 2004 from \$7.6 million in the same period last year, primarily due to the increase in store count to 298 stores at the end of the third quarter of fiscal 2004 from 282 stores at the end of the third quarter of fiscal 2003.

5. **Redemption Premium and Unamortized Financing Fees Related to Redemption of Debt.** Redemption premium and unamortized financing fees related to redemption of debt were \$0.8 million in the 39 weeks ended September 26, 2004 versus \$1.5 million during the same period last year. The \$0.8 million charge in the 39 weeks ended September 26, 2004 resulted from the redemption of \$15.0 million face value of our 10.875% senior notes and the related carrying value of applicable deferred financing costs and original issue discount which totaled \$0.2 million in the second quarter of fiscal 2004. The \$1.5 million charge in the first 39 weeks of fiscal 2003 resulted from the redemption of \$20.0 million face value of our 10.875% senior notes during the first quarter of fiscal 2003.

6. **Interest Expense, Net.** Interest expense, net decreased by \$3.5 million, or 40.5%, to \$5.2 million in the first 39 weeks of fiscal 2004 from \$8.7 million in the same period last year. Interest expense benefited from the redemption of \$15.0 million of our 10.875% senior notes in the second quarter of fiscal 2004 and \$55.0 million in fiscal 2003 through borrowings from our lower cost credit facility. A reduction in overall debt levels since the beginning of fiscal 2003 also contributed to the decrease in interest expense.

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7. Income Taxes. Provision for income taxes was \$15.1 million for the first 39 weeks of fiscal 2004 and \$11.4 million for the first 39 weeks of fiscal 2003. We accrue taxes at the statutory tax rate, which is reevaluated on an ongoing basis by management. In the 39 weeks ended September 26, 2004 we determined the Company's effective tax rate to be 40%, down from 41% in the 39 weeks ended September 28, 2003, due in part to the growth in our store base outside of California.

LIQUIDITY AND CAPITAL RESOURCES

Our principal liquidity requirements are for working capital and capital expenditures. We fund our liquidity requirements with cash on hand, cash flow from operations and borrowings under our credit facility.

Net cash provided by operating activities for the first 39 weeks of fiscal 2004 and fiscal 2003 was \$10.3 million and \$14.9 million, respectively. The change between periods primarily reflects higher net income in the first 39 weeks of fiscal 2004 offset by increased working capital requirements between periods to fund store growth.

Capital expenditures for the first 39 weeks of fiscal 2004 and 2003 were \$7.6 million and \$4.8 million, respectively. Expenditures for our planned new distribution center accounted for approximately \$1.5 million of capital expenditures in the first 39 weeks of fiscal 2004. We expect capital expenditures for the fourth quarter of fiscal 2004 to range from \$8.0 to \$10.0 million, of which approximately \$4.5 million is related to the planned distribution center. Full fiscal year 2004 distribution center expenditures are expected to be approximately \$6.0 million. We now anticipate total capital expenditures for the new distribution center to be approximately \$17 to \$18 million, an increase from the \$15 million previously projected. The new distribution center is scheduled to be operational in the second half of fiscal 2005.

Net cash used in financing activities for the first 39 weeks of fiscal 2004 and fiscal 2003 was \$5.3 million and \$13.6 million, respectively. As of September 26, 2004, we had borrowings of \$72.6 million and letter of credit commitments of \$4.3 million outstanding under our credit facility and \$33.1 million of our 10.875% senior notes outstanding. These balances compare to borrowings of \$33.4 million and letter of credit commitments of \$5.8 million outstanding under our credit facility and \$82.9 million of our 10.875% senior notes outstanding as of September 28, 2003. On April 15, 2004, we redeemed \$15.0 million face value of our 10.875% senior notes due 2007, using borrowings under our credit facility. We also redeemed \$20.0 million face value and \$35.0 million face value of our 10.875% senior notes due 2007 during the first and fourth quarters of fiscal 2003, respectively, using borrowings under our credit facility. We had \$6.4 million of cash at September 26, 2004 and \$6.0 million at September 28, 2003.

On October 27, 2004, the Company announced that its Board of Directors has voted to initiate a cash dividend, at an annual rate of \$0.28 per share of outstanding common stock. The first quarterly payment, of \$0.07 per share, will be paid on December 15, 2004, to stockholders of record as of December 1, 2004. The aggregate amount of the quarterly dividend will be approximately \$1.6 million. The Company's ability to pay this dividend in

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the future will depend, in part, on compliance with the restrictions on dividends contained in the Company's revolving credit facility and the indenture governing its 10.875% senior notes due 2007.

We believe we will be able to fund our future cash requirements for operations from operating cash flows, cash on hand and borrowings under our credit facility. We believe these sources of funds will be sufficient to continue our operations and planned capital expenditures, satisfy our scheduled payments under debt obligations and pay quarterly dividends for at least the next twelve months. However, our ability to satisfy such obligations 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. See "Risk Factors That May Affect Future Results and Market Price of Our Common Stock."

Our principal future obligations and commitments, excluding periodic interest payments, include the following:

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	After 5 Years
			(in thousands)		
Long-term debt	\$ 33,063	\$ —	\$ —	\$ 33,063	\$ —
Operating lease commitments	299,446	44,682	78,577	64,653	111,534
Revolving credit facility	72,583	—	72,583	—	—
Letters of credit	4,320	4,320	—	—	—
Total	<u>\$ 409,412</u>	<u>\$ 49,002</u>	<u>\$ 151,160</u>	<u>\$ 97,716</u>	<u>\$ 111,534</u>

Long-term debt consists of our 10.875% senior notes that mature on November 13, 2007. We expect to repay our 10.875% senior notes on or before the maturity date using a combination of cash flow from operations, drawings under our credit facility, an expansion or replacement of our credit facility and the issuance of debt or equity securities. On October 27, 2004, we announced that we would redeem \$10.0 million principal amount of our 10.875% senior notes. We are currently seeking an enhancement to our credit facility that would allow us to redeem the remaining principal amount outstanding of our 10.875% senior notes during the fourth quarter of fiscal 2004 using borrowings under such credit facility and/or cash flow from operations. The 10.875% senior notes are general unsecured obligations, which rank senior in right of payment to all of our existing and future subordinated indebtedness and *pari passu* in right of payment with all of our current and future unsubordinated indebtedness, subject to the security interests that have been granted in substantially all of our assets in connection with our credit facility.

Operating lease commitments consist principally of leases for our retail store facilities, distribution center and corporate offices. These leases frequently include options which permit us to extend the terms beyond the initial fixed lease term. We intend to renegotiate those leases as they expire. Payments for these lease commitments are provided for by cash flows generated from operations.

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In April 2004 we signed an operating lease agreement for a new distribution facility in order to facilitate our store growth. The new distribution facility will be located in Riverside, California and will have approximately 952,900 square feet of storage and office space. We anticipate completion of the construction and transition to the new distribution center in the second half of fiscal 2005. The expected annual lease payments are included in the table above.

We have a non-amortizing \$140.0 million revolving credit facility. The 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, 2006. We may terminate the credit facility by giving at least 30 days prior written notice, provided that if we terminate prior to March 20, 2006, we must pay an early termination fee. Unless it is terminated, the credit facility will continue on an annual basis from anniversary date to anniversary date beginning on March 21, 2006. The facility is secured by a first priority security interest in substantially all of our assets.

The credit facility bears interest at various rates based on our performance, with a floor of LIBOR plus 1.50% or the JP Morgan Chase Bank prime lending rate and a ceiling of LIBOR plus 2.50% or the JP Morgan Chase Bank prime lending rate plus 0.75% and is secured by trade accounts receivable, merchandise inventory and general intangible assets (including trademarks and trade names). At September 26, 2004, loans under the credit facility bear interest at a rate of LIBOR (1.84% at September 26, 2004) plus 1.50% or the JP Morgan Chase Bank prime lending rate (4.50% at September 26, 2004). An annual fee of 0.325%, payable monthly, is assessed on the unused portion of the amended and restated credit facility. On September 26, 2004, we had \$72.6 million in LIBOR and prime lending rate borrowings and letters of credit of \$4.3 million outstanding. Our maximum eligible borrowing available under the credit facility is limited to 71.15% of the aggregate value of eligible inventory during November and December and 67.24% during the remainder of the year. The maximum eligible borrowing available under the credit facility had been 70% of the aggregate value of eligible inventory from November through February and 65% of the aggregate value of eligible inventory during the remainder of the year. The advance rates changed in April 2004 following a scheduled appraisal by the credit facility agent. Available borrowings over and above actual borrowings and letters of credit outstanding on the credit facility amounted to \$45.6 million at September 26, 2004.

Our credit facility and the indenture governing our 10.875% senior notes contain various financial and other covenants, including covenants that require us to maintain various financial ratios, restrict our ability to incur indebtedness or to create various liens and restrict the amount of capital expenditures that we may incur. Our credit facility and the indenture governing our 10.875% senior notes also restrict our ability to engage in mergers or acquisitions, sell assets or pay dividends. We are currently in compliance with all covenants under our credit facility and the indenture governing our 10.875% senior notes.

If we fail to make any required payment under our credit facility or the indenture governing our 10.875% senior notes or if we otherwise default under these instruments, our debt may be accelerated under these instruments. This acceleration could also result in the acceleration of other indebtedness that we may have outstanding at that time.

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If we are unable to generate sufficient cash flow from operations to meet our obligations and commitments, 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 dividend payments or delay or forego expansion opportunities. We might not be able to affect these alternative strategies on satisfactory terms, if at all.

SEASONALITY

We experience seasonal fluctuations in our net sales and operating results. In fiscal 2003, we generated 27.0% of our net sales and 35.2% of our operating income in the fourth fiscal quarter, which includes the holiday selling season as well as the peak winter sports selling season. As a result, we incur significant additional expenses in the fourth fiscal quarter due to higher purchase volumes and increased staffing. If we miscalculate the demand for our products generally or for our product mix during the fourth fiscal quarter, our net sales, including same store sales, could decline, resulting in excess inventory, which could harm our financial performance. Because a substantial portion of our operating income is derived from our fourth fiscal quarter net sales, a shortfall in expected fourth fiscal quarter net sales could cause our annual operating results to suffer significantly.

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”, “will”, “should”, “expects”, “plans”, “anticipates”, “believes”, “intends” or other such terminology. These forward-looking statements involve 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, without limitation, the risk factors set forth below and elsewhere in this report and other risks and uncertainties more fully described in our other filings with the Securities and Exchange Commission. We caution that the risk factors set forth in this report are not exclusive. In addition, we conduct our business in a highly competitive and rapidly changing environment. Accordingly, new risk factors may arise. It is not possible for management to predict all such risk factors, nor to assess the impact of all such risk factors on our business or the extent to which any individual risk factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement. We disclaim any obligation to revise or update any forward-looking statement that may be made from time to time by us or on our behalf.

RISK FACTORS THAT MAY AFFECT FUTURE RESULTS AND MARKET PRICE OF OUR COMMON STOCK

Set forth below and elsewhere in this report and in other documents we file with the Securities and Exchange Commission are risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements contained in this report.

Risks Related to Our Business

We have a substantial amount of debt, future cash flows may not be sufficient to meet our obligations and we might have difficulty obtaining more financing.

We have a substantial amount of debt. As of September 26, 2004, the aggregate principal amount of our outstanding indebtedness was approximately \$105.6 million. Our leveraged financial position means:

- a substantial portion of our cash flow from operations will be required to service our indebtedness;
- our ability to obtain financing in the future for working capital, capital expenditures and general corporate purposes might be impeded; and
- we are more vulnerable to economic downturns and our ability to withstand competitive pressures is limited.

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 credit facility or indenture, our debt may be accelerated under these instruments. In addition, in the event of bankruptcy or insolvency or a material breach of any covenant contained in one of our debt instruments, our debt may be accelerated. This acceleration could also result in the acceleration of other indebtedness that we may have outstanding at that time.

If we are unable to generate sufficient cash flow from operations to meet our obligations and commitments, 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 or delay or forego expansion opportunities. These alternative strategies might not be effected on satisfactory terms, if at all.

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

The terms of our debt instruments impose operating and financial restrictions on us, including, among other things, restrictions on our ability to incur additional indebtedness, create or allow liens, pay dividends, engage in mergers, acquisitions or reorganizations or make specified capital expenditures. For example, our ability to engage

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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 agreements. 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 without obtaining consent from our lenders. In addition, our credit facility is secured by a first priority security interest in our trade 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 debt instruments would be entitled to payment in full from our assets before distributions, if any, were made to our stockholders.

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. Our ability to successfully implement our growth strategy could be negatively affected by any of the following:

- suitable sites may not be available for leasing;
- we may not be able to negotiate acceptable lease terms;
- we might not be able to hire and retain qualified store personnel; and
- we might 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 and diversion of management attention from ongoing operations. 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 and discretionary spending patterns than our existing markets. To the extent that we are not able to meet these new challenges, our net sales, including same store sales, could decrease and our operating costs could increase.

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, weather conditions, power outages, electricity and gasoline costs, and 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 (such as those that occurred in the winter of 2002-2003), inclement weather or other localized conditions such as flooding, fires (such as the major fires in 2003), earthquakes or electricity

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blackouts could harm our operations. State and local regulatory compliance, including workers compensation costs, also can impact our financial results. If the region were to suffer an economic downturn or other adverse regional event, our net sales, including same store sales, and profitability and our ability to implement our planned expansion program could suffer. Several of our competitors operate stores across the United States and thus are not as vulnerable to these regional risks.

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 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 federal minimum wage or other employee benefits costs could increase our operating expenses. If we are unable to attract and retain personnel as needed in the future, our net sales growth, including same store sales growth, and operating results may suffer.

Our hardware and software systems are vulnerable to damage that could harm our business.

Our success, in particular our ability to successfully manage inventory levels, largely depends upon the efficient operation of our computer hardware and software systems. We use management information systems to track inventory information at the store level, communicate customer information and aggregate daily sales 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 failure, operator negligence, improper operation by or supervision of employees, physical and electronic loss of data or security breaches, misappropriation and similar events; and
- computer viruses.

Any failure that causes an interruption in our operations or a decrease in inventory tracking could result in reduced net sales, including same store sales, and profitability.

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

We purchase merchandise from over 750 vendors. Although we did not rely on any single vendor for more than 6.3% of our total purchases during the twelve months ended September 26, 2004, our dependence on principal suppliers involves risk. Our 20 largest vendors collectively accounted for 37.6% of our total purchases during the twelve months

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ended September 26, 2004. 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. In addition, a significant portion of the products that we purchase, including those purchased from domestic suppliers, are manufactured abroad. A vendor could discontinue selling products to us at any time for reasons that may or may not be in our control. Our net sales, including same store 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.

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

From time to time, shipping ports experience capacity constraints, labor strikes, work stoppages or other disruptions that may delay the delivery of imported products. The Port of Los Angeles, through which a substantial amount of the products manufactured abroad that we sell are imported, has recently been experiencing delays in distribution of products being imported through the Port to their final destination due to difficulties associated with capacity limitations. To date, such delays have not adversely affected our ability to keep our stores supplied with appropriate merchandise. However, future disruptions at a shipping port at which our products are received, whether due to delays at the Port of Los Angeles or otherwise, may result in delays in the transportation of such products to our primary and satellite distribution centers and ultimately delay the stocking of our stores with the affected merchandise. As a result, our net sales, including same store sales, and profitability could decline.

Because all of our stores rely on a single primary distribution center and a satellite distribution center, any disruption could reduce our net sales.

We currently rely on a single primary distribution center in Fontana, California, as well as a satellite distribution center to handle seasonal merchandise and returns. Any natural disaster or other serious disruption to the primary 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, including same store sales, and profitability. Any similar event which affects our satellite distribution center could materially impair our ability to adequately stock our stores with seasonal merchandise, which could also materially impair our net sales, including same store sales, and profitability. If the security measures used at our distribution centers do not prevent inventory theft, our gross margin may significantly decrease.

Due to limited capacity at the current primary distribution center, we entered into a 10-year lease with three five-year renewal options for a replacement distribution center in the second quarter of fiscal 2004. Construction began on the new distribution center in the third quarter of fiscal 2004. We anticipate completion of the construction and transition to the new distribution center in the second half of fiscal 2005. Any disruption to, or delay in, this process could harm our future operations.

Because equity owners of a significant stockholder of one of our competitors serve on our board of directors and the board of directors of such competitor, there may be conflicts of interest.

Green Equity Investors, L.P., an affiliate of Leonard Green & Partners, L.P., holds approximately 7.8% of the outstanding common stock of The Sports Authority, Inc., one of our competitors. John G. Danhaki, an equity owner of Leonard Green & Partners, L.P., currently serves on our board of directors. Jonathan D. Sokoloff, an equity owner of Leonard Green & Partners, L.P. and a former member of our board of directors, currently serves on The Sports Authority, Inc.'s board of directors. Mr. Danhaki may have conflicts of interest with respect to certain matters affecting us, including the pursuit of certain business opportunities presented to Leonard Green & Partners, L.P. All potential conflicts may not be resolved in a manner that is favorable to us. We believe it is impossible to predict the precise circumstances under which future potential conflicts may arise and therefore intend to address potential conflicts on a case-by-case basis. Under Delaware law, directors have a fiduciary duty to act in good faith and in what they believe to be in the best interest of the corporation and its stockholders. Such duties include the duty to refrain from impermissible

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self-dealing and to deal fairly with respect to transactions in which the directors, or other companies with which such directors are affiliated, have an interest.

Recently enacted and proposed changes in securities laws and regulations are likely to increase our costs.

The Sarbanes-Oxley Act of 2002 (the “Act”) that became law in July 2002, as well as new rules and regulations subsequently implemented by the Securities and Exchange Commission (the “SEC”), have required and will require changes in some of our corporate governance practices. The Act also requires the SEC to promulgate additional new rules on a variety of subjects. In addition to final rules and rule proposals already made by the SEC, Nasdaq has revised its requirements for companies that are quoted on The Nasdaq Stock Market, Inc.’s National Market. We expect these new rules and regulations to increase our legal and financial compliance costs and to make some activities more difficult, time consuming and/or costly. We also expect these new rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These new rules and regulations could also make it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our audit committee, and qualified executive officers.

As required by Section 404 of the Sarbanes Oxley Act of 2002, management is continuing to test and evaluate our internal control structure over financial reporting to determine whether our controls are designed and operating effectively. Although management has made our Section 404 compliance efforts a top priority, there can be no assurance that any control deficiencies identified and validated will be remediated before the end of our 2004 fiscal year or that any unresolved control deficiencies will not rise to the level of significant deficiencies or material weaknesses.

Risks Related to Our Industry

A downturn in the economy may affect consumer purchases of discretionary items, which could reduce our net sales.

In general, our 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, taxation, electricity power rates, gasoline prices, unemployment trends and other matters that influence consumer confidence and spending. Our customers’ purchases of discretionary items, including our products, could decline during periods when disposable income is lower or periods of actual or perceived unfavorable economic conditions. If this occurs, our net sales, including same store sales, and profitability could decline.

Seasonal fluctuations in the sales of sporting goods could cause our annual operating results to suffer significantly.

We experience seasonal fluctuations in our net sales and operating results. In fiscal 2003, we generated 27.0% of our net sales and 35.2% of our operating income in the fourth fiscal quarter, which includes the holiday selling season as well as the peak winter sports selling season. As a result, we incur significant additional expenses in the fourth fiscal quarter due to higher purchase volumes and increased staffing. If we miscalculate the demand for our products generally or for our product mix during the fourth fiscal quarter, our net sales, including same store sales, could decline, resulting in excess inventory, which could harm our financial performance. Because a substantial portion of our operating

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income is derived from our fourth fiscal quarter net sales, a shortfall in expected fourth fiscal quarter net sales could cause our annual operating results to suffer significantly.

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:

- other traditional sporting goods stores and chains;
- mass merchandisers, discount stores and department stores, such as Wal-Mart, Kmart, Target, Kohl's, JC Penney, and Sears;
- specialty sporting goods shops and pro shops, such as The Athlete's Foot and Foot Locker;
- sporting goods superstores, such as The Sports Authority, Inc., and its other operating units, Oshman's, Sportmart and Gart Sports Company; and
- internet retailers.

Some of our competitors have a larger number of stores and greater financial, distribution, marketing and other resources than we have. Two of our major competitors, The Sports Authority, Inc. and Gart Sports Company (including its other operating units, Oshman's and Sportmart), completed a merger in August 2003. In addition, if our competitors reduce their prices, it may be difficult for us to reach our net sales or same store 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.

We may incur costs from litigation or increased regulation relating to products that we sell, particularly firearms.

We sell products manufactured by third parties, some of which may be defective. If any product 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 product. Our insurance coverage may not be adequate to cover every claim 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. In addition, our products are subject to the Federal Consumer Product Safety Act, which empowers the Consumer Product Safety Commission to protect consumers from hazardous sporting goods and other articles. The Consumer Product Safety Commission has the authority to exclude from the market 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, fines and negative publicity that could harm our operating results.

In addition, we sell firearms and ammunition, products associated with an increased risk of injury and related lawsuits. Sales of firearms and ammunition have

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historically represented less than 5% of our annual net sales. 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. In addition, in the future there may be increased federal, state or local regulation, including taxation, of the sale of firearms in both our current markets as well as future markets in which we may operate. Commencement of these lawsuits against us or the establishment of new regulations could reduce our net sales, including same store sales, and decrease our profitability.

If we fail to anticipate changes in consumer preferences, we may experience lower net sales, 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, including same store 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.

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 (including same store sales), costs and expenses and financial condition. The threat of terrorist attacks since September 11, 2001 continues to create many economic and political uncertainties. 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 by the United States and its allies in Iraq or elsewhere could have a short or long term negative economic impact upon the financial markets and our business in general.

Risks Related to Investing in Our Common Stock

The price of our common stock may be volatile.

The trading price of our common stock may fluctuate widely as a result of a number of factors, many of which are outside our control. In addition, the stock market has experienced extreme price and volume fluctuations that have affected the market prices of many companies. These broad market fluctuations could adversely affect the market price of our common stock. A significant decline in our stock price could result in substantial losses for individual stockholders and could lead to costly and disruptive securities litigation.

Substantial amounts of our common stock could be sold in the near future, which could depress our stock price.

We cannot predict the effect, if any, that the availability of shares of common stock for sale will have on the market price of our common stock prevailing from time to time. At October 29, 2004, there were 22,672,627 shares of our common stock outstanding, excluding treasury shares. All of these shares are freely transferable without restriction or further registration under the federal securities laws, except for any shares held by our affiliates, sales of which will be limited by Rule 144 under the Securities Act of 1933. Sales of a significant number of these shares of common stock in the public market could reduce the market price of the common stock or our ability to raise capital by offering equity securities.

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 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We are subject to risks resulting from interest rate fluctuations since interest on our borrowings under our credit facility are based on variable rates. If the LIBOR rate were to increase 1.0% as compared to the applicable rate at September 26, 2004, our interest expense would increase \$0.7 million on an annual basis, based on the outstanding balance of our credit facility at September 26, 2004. We do not hold any derivative instruments and do not engage in hedging activities.

ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that (1) information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified by the Securities and Exchange Commission and (2) this information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Disclosure controls and procedures, no matter how well designed and implemented, can provide only reasonable assurance of achieving an entity's disclosure objectives. The likelihood of achieving such objectives is affected by limitations inherent in disclosure controls and procedures. These include the fact that human judgment in decision-making can be faulty and that breakdowns in internal controls can occur because of human failures such as simple errors or mistakes or intentional circumvention of the established process. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Under the supervision and review of our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures as of September 26, 2004. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective in providing reasonable assurance that they are alerted in a timely manner to material information regarding us that is required to be included in our periodic reports. In addition, there have been no significant changes in our internal controls or in other factors that could significantly affect those controls since September 26, 2004, the date as of which our disclosure controls and procedures were last evaluated.

As required by Section 404 of the Sarbanes Oxley Act of 2002, management is continuing to test and evaluate our internal control structure over financial reporting to determine whether our controls are designed and operating effectively. Although management has made our Section 404 compliance efforts a top priority, there can be no assurance that any control deficiencies identified and validated will be remediated before the end of our 2004 fiscal year or that any unresolved control deficiencies will not rise to the level of significant deficiencies or material weaknesses.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

We are from time to time involved in routine litigation incidental to the conduct of our business. We regularly review all pending litigation matters in which we are involved and establish liabilities deemed appropriate by management for such litigation matters. We believe no litigation currently pending against us will have a material adverse effect on our financial position, results of operations or liquidity.

Item 2. Changes in Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None

Item 6. Exhibits

Exhibit Number	Description of Document
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a)/15d-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.

CERTIFICATIONS

I, Steven G. Miller, President and Chief Executive Officer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Big 5 Sporting Goods Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financing reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2004

/s/ Steven G. Miller

Steven G. Miller

President and Chief Executive Officer

CERTIFICATIONS

I, Charles P. Kirk, Senior Vice President and Chief Financial Officer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Big 5 Sporting Goods Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financing reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2004

/s/ Charles P. Kirk

Charles P. Kirk

Senior Vice President and Chief Financial Officer

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Big 5 Sporting Goods Corporation (the "Company") on Form 10-Q for the period ending September 26, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven G. Miller, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Steven G. Miller

Steven G. Miller
President and Chief Executive Officer
November 5, 2004

A signed original of this written statement required by Section 906 has been provided to Big 5 Sporting Goods Corporation and will be retained by Big 5 Sporting Goods Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Big 5 Sporting Goods Corporation (the "Company") on Form 10-Q for the period ending September 26, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles P. Kirk, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Charles P. Kirk
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Charles P. Kirk
Senior Vice President and Chief Financial Officer
November 5, 2004

A signed original of this written statement required by Section 906 has been provided to Big 5 Sporting Goods Corporation and will be retained by Big 5 Sporting Goods Corporation and furnished to the Securities and Exchange Commission or its staff upon request.