
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 1

TO FORM S-1 REGISTRATION STATEMENT Under THE SECURITIES ACT OF 1933

BIG 5 SPORTING GOODS CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

5941
(Primary Standard Industrial
Classification Code Number)

95-4388794
(I.R.S. Employer
Identification Number)

2525 East El Segundo Boulevard

El Segundo, California 90245

(310) 536-0611

(Address, including zip code, and telephone number, including area code, of
Registrant's principal executive offices)

Gary S. Meade, Esq.

Senior Vice President & General Counsel

Big 5 Sporting Goods Corporation

2525 East El Segundo Boulevard

El Segundo, California 90245

(310) 536-0611

(Name, address, including zip code, and telephone number, including area code, of agent for services)

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Approximate date of commencement of proposed sale to the public:

As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. _____

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. _____

If delivery of the prospectus is expected to be made pursuant to Rule 434 under the Securities Act, check the following box.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to such Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED _____, 2002

Shares

Big 5 Sporting Goods Corporation



Common Stock

Prior to this offering, there has been no public market for our common stock. We are selling _____ shares of common stock and the selling stockholders are selling _____ shares of common stock. We will not receive any of the proceeds from the shares of common stock sold by the selling stockholders.

The initial public offering price of the common stock is expected to be between \$ _____ and \$ _____ per share. We will apply to list our common stock on The Nasdaq Stock Market's National Market under the symbol "_____."

The underwriters have an option to purchase a maximum of _____ additional shares to cover over-allotments of shares.

Investing in our common stock involves risks. See "Risk Factors" beginning on page 6.

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Big 5 Sporting Goods	Proceeds to Selling Stockholders
Per Share	\$ _____	\$ _____	\$ _____	\$ _____
Total	\$ _____	\$ _____	\$ _____	\$ _____

Delivery of the shares of common stock will be made on or about _____, 2002.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Credit Suisse First Boston

U.S. Bancorp Piper Jaffray

Jefferies & Company, Inc.

Stephens Inc.

The date of this prospectus is _____, 2002.

DESCRIPTION OF ARTWORK:

The inside front cover contains a map of the western half of the United States with dots indicating store locations. The heading of the map states "THE LEADING SPORTING GOODS RETAILER IN THE WESTERN UNITED STATES". There is a legend on the top right hand side of the map that indicates the states in which we operate and the number of stores in each state.

Below the map there are two photographs of front entrances to Big 5 Sporting Goods stores.

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You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.

Dealer Prospectus Delivery Obligation

Until _____, 2002 (25 days after the commencement of the offering), all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to unsold allotments or subscriptions.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. We urge you to read this entire prospectus carefully, including the "Risk Factors" section beginning on page 6.

Big 5 Sporting Goods

Overview

We are the leading sporting goods retailer in the western United States, operating 260 stores in 10 states under the name "Big 5 Sporting Goods." We provide a full-line product offering of over 25,000 stock keeping units in a traditional sporting goods store format that averages 11,000 square feet. We believe that over the past 46 years we have developed a reputation with the competitive and recreational sporting goods customer as a convenient neighborhood sporting goods retailer that consistently delivers value on quality merchandise. We reinforce our value reputation through weekly print advertising in major and local newspapers and mailers designed to generate customer traffic, drive sales and build brand awareness.

Founded in 1955, our accumulated management experience and expertise in sporting goods merchandising, advertising, operations and store development have enabled us to generate consistent, profitable growth. As of December 30, 2001, we have realized 24 consecutive quarterly increases in same store sales over comparable prior periods. All but one of our stores have generated positive store-level operating profit in each of the past five fiscal years. In fiscal 2001, we generated net sales of \$622.5 million and adjusted EBITDA of \$54.8 million. For the five fiscal years ended December 30, 2001, our net sales and adjusted EBITDA increased at compounded annual growth rates of 9.0% and 16.0%. We believe our success can be attributed to one of the most experienced management teams in the sporting goods industry, a value-based, execution-driven operating philosophy, a controlled growth strategy and a proven business model.

Our Strengths

Leading Position in Established Markets. We are the market leader in the western United States, operating almost four times as many stores in California, and more than twice as many stores in each of Washington, Oregon, Arizona and Nevada, as any of our full-line sporting goods competitors.

Proven Store Format. Our typical store averages 11,000 square feet, is conveniently located near our target customers in either a free-standing location or a multi-store shopping center and is designed to minimize operating and maintenance costs. Our store format enables us to have substantial flexibility regarding new store locations and also results in productivity that we believe is among the highest of any full-line sporting goods retailer, with net sales per gross square foot of approximately \$224 in fiscal 2001.

Superior Merchandising Capabilities. We have developed considerable expertise in identifying, stocking and selling a broad assortment of sporting goods at competitive prices. Our buyers average 17 years of experience with us and work closely with senior management to determine product selection, promotion and pricing.

Extensive Advertising Programs and Expertise. We have advertised almost exclusively through weekly print advertisements since our founding in 1955. We believe our print advertising, which includes the weekly distribution of over 12.5 million newspaper inserts and mailers, consistently reaches more households in our established markets than that of our full-line sporting goods competitors. The consistency and reach of our print advertising programs drive sales, create high customer awareness of the name Big 5 Sporting Goods and reinforce our reputation for offering quality products at attractive prices.

Significant Management Experience. We believe the experience, commitment and tenure of our professional staff provide a substantial competitive advantage. Steven G. Miller, our President and Chief

Executive Officer and son of one of our co-founders, has worked at our company for 34 years and our senior-level managers have worked at our company for an average of 28 years.

Consistent Growth and Strong Cash Flow. We have been able to generate consistent growth, expand margins and increase our profitability because of our extensive experience, our proven strategy and steady execution of our business model. Our consistent net sales growth combined with improved purchasing, inventory management and economies of scale have enabled us to increase our gross margin from 32.6% in fiscal 1997 to 34.5% in fiscal 2001 and our adjusted EBITDA margin from 7.8% in fiscal 1997 to 8.8% in fiscal 2001.

Strong Returns on New Store Openings. We seek to expand our business with the addition of new stores through a disciplined strategy of controlled growth. New store openings represent attractive investment opportunities due to the relatively low investment required and the relatively short time in which our new stores become profitable. Based on our operating experience, a new store typically achieves store-level cash-on-cash returns of approximately 35% to 40% in its first full fiscal year of operation.

Our Strategy

Our objective is to build upon these competitive strengths to profitably grow our business and further advance our position as the leading sporting goods retailer in the western United States. We intend to accomplish this by:

- continuing our dedicated focus on execution;
- profitably expanding our store base;
- generating net sales growth through our distinctive merchandise mix and advertising programs; and
- enhancing profitability through increased operating efficiencies.

Big 5 Sporting Goods Corporation is a Delaware corporation. Our principal executive offices are located at 2525 East El Segundo Boulevard, El Segundo, CA 90245. Our telephone number is (310) 536-0611.

Big 5 is our registered servicemark and Court Casuals, Golden Bear, Pacifica and Rugged Exposure are our registered trademarks. All other registered trademarks and trade names referred to in this prospectus are the property of their respective owners.

The Offering

Common stock offered by us	shares
Common stock offered by the selling stockholders	shares
Common stock to be outstanding after this offering	shares
Use of proceeds	<p>We intend to use the net proceeds we receive to redeem all of our senior discount notes, redeem all of our outstanding shares of Series A preferred stock and repurchase up to [redacted] shares of our common stock from our non- executive employees. We will use the remainder of the net proceeds, if any, for general corporate purposes.</p> <p>We will not receive any of the proceeds from the sale of shares by the selling stockholders.</p>
Listing	We intend to file an application to have our common stock approved for quotation on The Nasdaq Stock Market's National Market under the symbol " [redacted] ."

Unless otherwise indicated, all share information in this prospectus is based on the number of shares outstanding as of December 30, 2001 and excludes:

- 60,000 shares of our common stock issuable upon exercise of an outstanding warrant, at a price of \$0.01 per share;
- [redacted] shares of our common stock available for future issuance under our 2002 stock incentive plan; and
- the possible issuance of up to [redacted] additional shares of our common stock that the underwriters have the option to purchase from us to cover over-allotments.

Summary Consolidated Financial and Other Data

The summary data presented below under the captions “Statements of Operations Data” and “Balance Sheet Data” for, and as of the end of, the fiscal years ended December 28, 1997, January 3, 1999, January 2, 2000, December 31, 2000 and December 30, 2001 are derived from our audited consolidated financial statements, which financial statements have been audited by KPMG LLP, independent certified public accountants. The consolidated financial statements as of December 31, 2000 and December 30, 2001 and for each of the fiscal years ended January 2, 2000, December 31, 2000 and December 30, 2001 and the report thereon are included elsewhere in the prospectus. The information presented below under the captions “Store Data” and “Other Financial Data” is unaudited. You should read the following tables in conjunction with the consolidated financial statements and accompanying notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” appearing elsewhere in this prospectus.

	Fiscal Years(1)				
	1997	1998	1999	2000	2001
(dollars and shares in thousands, except per share and store data)					
Statements of Operations Data:					
Net sales	\$443,541	\$491,430	\$514,324	\$571,476	\$622,481
Gross profit	144,648	161,187	172,472	194,436	214,802
Operating income	23,039	30,240	31,771	40,393	42,212
Net income	8,737	4,506	5,825	11,148	14,965
Pro forma net income(2)					
Pro forma earnings per share(2):					
Basic					\$
Diluted					\$
Shares used to calculate pro forma earnings per share(2):					
Basic					
Diluted					
Store Data:					
Same store sales increase(3)	6.6%	5.2%	2.0%	6.6%	4.9%
Net sales per gross square foot(4)	\$ 196	\$ 206	\$ 203	\$ 217	\$ 224
End of period stores	210	221	234	249	260
Average net sales per store(5)	\$ 2,218	\$ 2,324	\$ 2,285	\$ 2,405	\$ 2,448
Other Financial Data:					
Gross margin	32.6%	32.8%	33.5%	34.0%	34.5%
Adjusted EBITDA(6)	\$ 34,517	\$ 39,130	\$ 41,250	\$ 49,733	\$ 54,758
Adjusted EBITDA margin(7)	7.8%	8.0%	8.0%	8.7%	8.8%
Cash flow provided by (used in) operating activities	\$ (408)	\$ 30,561	\$ 15,599	\$ 19,857	\$ 31,521
Cash flow used in investing activities	(5,151)	(8,500)	(13,075)	(11,602)	(10,510)
Cash flow provided by (used in) financing activities	10,554	(25,398)	(3,888)	(9,593)	(16,899)
Depreciation and amortization	8,176	8,890	9,479	9,340	10,031

As of December 30, 2001

	Actual	As Adjusted(2)
	(unaudited)	
Balance Sheet Data:		
Cash	\$ 7,865	
Net working capital(8)	66,292	
Total assets	252,528	
Total debt	153,351	
Redeemable preferred stock	58,911	
Stockholders’ deficit	(82,476)	

(1) Our fiscal year is the 52 or 53 week reporting period ending on the Sunday closest to the calendar year end. Fiscal 1998 consisted of 53 weeks as compared to 52 weeks for each of fiscal years 1997, 1999, 2000 and 2001.

- (2) The pro forma statements of operations data and the balance sheet data as adjusted are presented as if this offering and the application of the net proceeds occurred at the beginning of the periods presented for the pro forma statements of operations data and at December 30, 2001 for the balance sheet data as adjusted.
- (3) Same store sales data for a period presented reflect net sales for stores open throughout that period as well as the corresponding prior period.
- (4) Net sales per gross square foot is calculated by dividing net sales for stores open the entire period by the total gross square footage for those stores.
- (5) Average net sales per store is calculated by dividing net sales for stores open the entire period by total store count for stores open the entire period.
- (6) EBITDA is operating income before depreciation and amortization. In fiscal 1997, adjusted EBITDA is EBITDA adjusted to exclude non-recurring transaction-related expenses of \$3,302, and in fiscal 2001, adjusted EBITDA is EBITDA adjusted to exclude accrued expenses of \$2,515 relating to litigation regarding the exempt status of certain of our store managers. EBITDA and adjusted EBITDA are not measures of financial performance under generally accepted accounting principles, or GAAP. Although EBITDA and adjusted EBITDA should not be considered in isolation or as a substitute for net income, cash flows from operating activities and other income or cash flow statement data prepared in accordance with GAAP, or as a measure of profitability or liquidity, we understand that EBITDA and adjusted EBITDA are widely used by financial analysts as a measure of financial performance. Our calculation of EBITDA and adjusted EBITDA may not be comparable to similarly titled measures reported by other companies.
- (7) Adjusted EBITDA margin is calculated by dividing adjusted EBITDA by net sales.
- (8) Net working capital is defined as current assets less current liabilities.

RISK FACTORS

The value of an investment in us will be subject to significant risks inherent in our business. You should carefully consider the risks described below, together with all of the other information included in this prospectus, before purchasing our common stock. If any of the following risks and uncertainties actually occur, our business, financial condition or operating results could be harmed substantially. This could cause the trading price of our common stock to decline, perhaps significantly.

Risks Related to Our Business

We are highly leveraged and future cash flows may not be sufficient to meet our obligations and we might have difficulty obtaining more financing.

We have, and will continue to have after this offering, a substantial amount of debt. Upon the application of our net proceeds from this offering, the aggregate amount of our principal future obligations and commitments, excluding periodic interest payments, will be approximately \$ million. Our highly 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 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 strategies 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 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, the increasing cost of electricity, earthquakes and other natural disasters and government regulations specific to the states in which we operate. For example, particularly in southern California where we have a high concentration of stores, seasonal factors such as unfavorable snow conditions, inclement weather or other localized conditions such as flooding, earthquakes or electricity blackouts could harm our operations. If the region were to suffer an economic downturn or other adverse regional event, our net 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 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 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 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.

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

We purchase merchandise from over 780 vendors. Although we did not rely on any single vendor for more than 6.0% of our total purchases during fiscal 2001, our dependence on principal suppliers involves risk. Our 20 largest vendors collectively accounted for 34.9% of our total purchases in fiscal 2001. 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 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.

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

We currently rely on a single distribution center in Fontana, California. Any natural disaster or other serious disruption to this distribution center due to fire, earthquake or any other cause could damage a significant portion of our inventory and could materially impair both our ability to adequately stock our stores and our net sales and profitability. If the security measures used at our distribution center do not prevent inventory theft, our gross margin may significantly decrease. In addition, because of limited capacity at the current distribution center, we will need to build a replacement distribution center in the next two to three years. Any disruption to, or delay in, this process could harm our future operations.

Some of our compensation practices have been challenged in a complaint that, if successful, could harm our financial condition and results of operations.

On August 9, 2001, we received a copy of a complaint filed in the California Superior Court in Los Angeles entitled Mosely, et al., v. Big 5 Corp., Case No. BC255749, alleging violations of the California Labor Code and the Business and Professions Code. This complaint was brought as a purported class action with two subclasses comprised of our California store managers and our California first assistant store managers. The plaintiffs allege that we improperly classified our store managers and first assistant store managers as exempt employees not entitled to overtime pay for work in excess of forty hours per week. They seek, on behalf of the class members, back pay for overtime allegedly not paid, statutory penalties in the amount of an additional thirty days' wages for each employee whose employment terminated in the four years preceding the complaint and injunctive relief to require us to treat our store management as non-exempt. On February 8, 2002, we filed a joint settlement with the court. Under the terms of the settlement, we agreed to pay \$32.46 per week of active employment as store manager during August 8, 1997 through December 31, 2001, the covered period, and \$25.50 per week of active employment as first assistant store manager during the covered period to each class member who submits a valid and timely claim form. We also agreed to pay attorneys' fees, plus costs and expenses, in the amount of \$690,000, as well as up to \$40,000 for the cost of the settlement administrator. In addition, we agreed to pay the class representatives an additional aggregate amount of \$32,500 for their service as

named plaintiffs. We recorded a charge of approximately \$2.5 million in the fourth quarter of fiscal 2001 to provide for expected payments to the class members as well as legal and other fees associated with the settlement. The settlement is subject to the approval of the court. Once approved, the settlement will constitute a full and complete settlement and release of all claims related to the lawsuit. In addition, we admit no liability or other wrongdoing with respect to the claims set forth in the lawsuit. We intend to defend the case vigorously if the court does not approve the settlement agreement. If the settlement is not approved by the court, an adverse result in this litigation could harm our financial condition, and any required change in our labor practices, as well as the costs of defending this litigation, could have a negative impact on our results of operations.

Because two equity owners of a substantial stockholder are members of the board of directors of one of our competitors, there may be conflicts of interest.

Green Equity Investors, L.P., an affiliate of Leonard Green & Partners, L.P., holds a significant equity interest in us and also holds an equity interest in Gart Sports Company, one of our competitors. John G. Danhagl, an executive officer and equity owner of Leonard Green & Partners, L.P., currently serves on our board of directors. Jonathan Sokoloff and Jonathan Seiffer, equity owners of Leonard Green & Partners, L.P. and former members of our board of directors, currently serve on Gart Sports Company's board of directors. Mr. Danhagl 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 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.

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, 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 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 2001, we generated 27.3% of our net sales and 35.5% 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 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.

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, 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 and Galt 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. In addition, if our competitors reduce their prices, it may be difficult for us to reach our net sales goals without reducing our prices. As a result of this competition, we may also need to spend more on advertising and promotion than we anticipate. If we are unable to compete successfully, our operating results will suffer.

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 represented approximately 3.1% of our net sales in fiscal 2001. 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 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 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.

Risks Related to This Offering

Our officers, directors and a substantial stockholder may be able to exert significant control over our future direction.

After this offering, our executive officers and directors, their affiliates and Green Equity Investors, L.P., an affiliate of Leonard Green & Partners, L.P., will together control approximately % of our outstanding common stock. As a result, these stockholders, if they act together, may be able to control, as a practical matter, all matters requiring our stockholders' approval, including the election of directors and approval of significant corporate transactions. As a result, this concentration of ownership and representation on our board of directors may delay, prevent or deter a change in control, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of the company or its assets and might reduce the market price of our common stock.

The price of our common stock after this offering may be lower than the offering price you pay and may be volatile.

Prior to this offering, our common stock has not been sold in a public market. After this offering, an active trading market in our common stock might not develop. If an active trading market develops, it may not continue. Moreover, if an active market develops, 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. If you purchase shares of our common stock in this offering, you will pay a price that was not established in a competitive market. Rather, you will pay a price that was negotiated with the representatives of the underwriters based upon a number of factors. The price of our common stock that will prevail in the market after this offering may be higher or lower than the offering price.

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

Prior to this offering, there has been no public market for our common stock. We cannot predict the effect, if any, that market sales of shares of common stock or the availability of shares of common stock for sale will have on the market price of our common stock prevailing from time to time. All of the outstanding shares of common stock belonging to officers, directors and other stockholders are currently "restricted securities" under the Securities Act. Some of these shares will be included in the sale of shares in this offering. In addition, we will repurchase up to shares of common stock from non-executive employees with a portion of the proceeds from this offering. Up to of the remaining shares are eligible for future sale in the public market at prescribed times pursuant to Rule 144 under the Securities Act, or otherwise. Sales of a significant number of these shares of common stock in the public market could reduce the market price of the common stock.

Green Equity Investors, L.P. owns 723,577 shares of our common stock and has the right to require us to register the common stock held by it at any time pursuant to a registration rights agreement entered into in 1992. In addition, holders of up to shares of our common stock, which includes the shares held by Green Equity Investors, L.P., and the holder of a warrant to acquire 60,000 shares of our common stock will have piggyback registration rights after the consummation of this offering. All of these holders, including Green Equity Investors, L.P., have agreed not to sell or otherwise dispose of any of their shares, other than those shares being sold in this offering, for a period of 180 days after the consummation of this offering. If, upon the expiration of the 180 days, Green Equity Investors, L.P. exercises its right to require us to register its shares for resale, the market price of our common stock could decline.

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;
- authorizing 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;
- prohibiting stockholder action by written consent and requiring all stockholder actions to be taken at a meeting of our stockholders; and
- establishing 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.

Investors will incur immediate and substantial dilution in the book value of their investment.

The initial public offering price will be substantially higher than the net tangible book value per share of the outstanding common stock. If you purchase shares of our common stock, you will incur immediate and substantial dilution in the amount of \$ per share, based on an assumed initial public offering price of \$ per share, which is the mid-point of the initial public offering price range set forth on the cover of this prospectus. This means that if we were to be liquidated immediately after the offering, there may be no assets available for distribution to you after satisfaction of all of our obligations to creditors. Investors will incur additional dilution upon the exercise of the outstanding warrant.

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

The terrorist attacks of September 11, 2001 have had a negative impact on various regions of the United States and on a wide range of industries. The terrorist attacks, as well as the United States’ war on terrorism, may have an unpredictable effect on general economic conditions and may harm our future results of operations. In the future, fears of recession, war and additional acts of terrorism may continue to impact the U.S. economy and could negatively impact our business.

FORWARD-LOOKING STATEMENTS

Some of the statements under “Prospectus Summary”, “Risk Factors”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, “Business”, and elsewhere in this prospectus constitute forward-looking statements. These statements involve risks, uncertainties and other factors that may cause our or our industry’s actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as “may”, “will”, “should”, “expects”, “plans”, “anticipates”, “believes”, “estimates”, “predicts”, “potential”, “continue” or the negative of these terms or other comparable terminology.

Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of these statements. Except as required by law, we do not intend to update any of the forward-looking statements after the date of this prospectus to conform these statements to actual results. Our forward-looking statements in this prospectus include, but are not limited to, statements relating to:

- our business strategy;
- our plans and ability to open new stores that are profitable;
- our plans and ability to meet the requirements of our debt instruments and other financial commitments;
- our estimates regarding capital requirements; and
- any of our other plans, objectives, expectations and intentions contained in this prospectus that are not historical facts.

Factors that may cause our actual results to differ materially from our forward-looking statements include, among others, changes in general economic and business conditions and the risks and other factors set forth in “Risk Factors” beginning on page 6.

USE OF PROCEEDS

We expect to receive approximately \$ million in net proceeds from the sale of shares of our common stock in this offering based on the sale of million shares at an assumed initial public offering price of \$ per share, the mid-point of the initial public offering price range set forth on the cover of this prospectus. If the underwriters exercise their over-allotment option in full, we expect our net proceeds to be approximately \$ million.

We intend to use the net proceeds from this offering to:

- redeem in full all of our 13.45% senior discount notes due 2008 for an aggregate redemption price of approximately \$ million;
- redeem in full all outstanding shares of our redeemable Series A 13.45% senior exchangeable preferred stock for an aggregate redemption price of approximately \$ million; and
- repurchase up to shares of our common stock from our non-executive employees at the public offering price, after deducting underwriting discounts and commissions, for an aggregate price of \$.

If the underwriters do not exercise their over-allotment option, we intend to draw upon our credit facility to fully fund these uses. If the underwriters exercise their over-allotment option, any additional net proceeds to us will be used to fund general corporate purposes. Pending application of the net proceeds as described above, we intend to invest the net proceeds in short-term investment grade securities.

We will not receive any of the proceeds from the sale of shares by the selling stockholders.

DIVIDEND POLICY

We anticipate that we will retain all of our earnings in the foreseeable future to finance the expansion of our business and, therefore, we do not anticipate paying any cash dividends on shares of our common stock in the foreseeable future. Any payment of cash dividends on our common stock will be dependent upon the ability of Big 5 Corp., our wholly owned subsidiary, to pay dividends or make cash payments or advances to us. The agreement governing our credit facility and the indenture governing our senior notes impose restrictions on Big 5 Corp.'s ability to make these payments. For example, Big 5 Corp.'s ability to pay dividends or make other distributions to us, and thus our ability to pay cash dividends on our common stock, will depend upon, among other things, its level of indebtedness at the time of the proposed dividend or distribution, whether it is in default under its financing agreements and the amount of dividends or distributions made in the past. Our future dividend policy will also depend on the requirements of any future financing agreements to which we may be a party and other factors considered relevant by our board of directors, including the General Corporation Law of the State of Delaware, which provides that dividends are only payable out of surplus or current net profits.

CAPITALIZATION

The following table sets forth our capitalization as of December 30, 2001:

- on an actual basis; and
- on an as adjusted basis to give effect to the sale of _____ shares of our common stock in this offering at an assumed initial public offering price of \$ _____ per share, which is the mid-point of the initial public offering price range set forth on the cover of this prospectus, and the intended application of the net proceeds.

	As of December 30, 2001	
	Actual	As Adjusted
	(unaudited) (dollars in millions)	
Total debt:		
Revolving credit facility(1)	\$ 25.0	\$
10.875% senior notes due 2007	103.8	
13.45% senior discount notes due 2008	24.6	—
	153.4	—
Total debt	153.4	
Redeemable Series A 13.45% senior exchangeable preferred stock, \$0.01 par value, authorized 350,000 shares; issued and outstanding 350,000 shares actual; no shares issued and outstanding as adjusted	58.9	—
Stockholders' deficit:		
Preferred stock, \$0.01 par value, authorized 1,150,000 shares; no shares issued and outstanding actual; no shares issued and outstanding as adjusted	—	—
Common stock, \$0.01 par value per share, 5,000,000 shares authorized, 1,926,200 shares issued and outstanding, actual; _____ shares issued and outstanding as adjusted	—	—
Additional paid-in capital	7.2	
Accumulated deficit	(89.7)	—
	(82.5)	—
Total capitalization	\$129.8	\$

(1) As of December 30, 2001, on an actual basis, there was \$91.4 million available for additional borrowings under our revolving credit facility.

DILUTION

The net tangible book value of our common stock on December 30, 2001 was \$ million, or approximately \$ per share. Net tangible book value per share represents the amount of our total tangible assets less total liabilities, divided by the number of shares of common stock outstanding. Dilution in net tangible book value per share represents the difference between the amount per share paid by purchasers of shares of our common stock in this offering and the net tangible book value per share of our common stock immediately afterwards. After giving effect to the sale of shares at an assumed initial public offering price of \$ per share, which is the mid-point of the initial public offering price range set forth on the cover of this prospectus, and after deducting estimated underwriting discounts and commissions and offering expenses payable by us, our net tangible book value at December 30, 2001 would have been approximately \$ million, or \$ per share. This represents an immediate increase in net tangible book value of \$ per share to existing stockholders and an immediate dilution in net tangible book value of \$ per share to new investors purchasing shares of common stock in this offering. The following table illustrates this dilution on a per share basis:

Assumed initial public offering price per share	\$
Net tangible book value per share at December 30, 2001	\$
Increase per share attributable to this offering	\$
As adjusted net tangible book value per share after this offering	\$
Dilution per share to new investors	\$

The following table summarizes, on an as adjusted basis, as of December 30, 2001, the total number of shares of our common stock, the total consideration paid and the average price per share paid by existing stockholders and by the new investors in this offering, calculated before deducting the estimated underwriting discounts and commissions and offering expenses:

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing stockholders					
New investors					
Total					

The foregoing discussion and tables assume no exercise by the underwriters of their over-allotment option and no exercise of the outstanding warrant for 60,000 shares of our common stock that is exercisable at \$0.01 per share. shares are reserved for issuance under our 2002 stock incentive plan. To the extent the over-allotment option or the outstanding warrant is exercised, or any shares under the 2002 stock incentive plan are issued, there may be further dilution to new investors.

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The selected data presented below under the captions “Statements of Operations Data” and “Balance Sheet Data” for, and as of the end of, the fiscal years ended December 28, 1997, January 3, 1999, January 2, 2000, December 31, 2000 and December 30, 2001 are derived from our audited consolidated financial statements, which financial statements have been audited by KPMG LLP, independent certified public accountants. The consolidated financial statements as of December 31, 2000 and December 30, 2001 and for each of the years ended January 2, 2000, December 31, 2000 and December 30, 2001 and the report thereon are included elsewhere in this prospectus. The information presented below under the captions “Store Data” and “Other Financial Data” is unaudited. You should read the following tables in conjunction with the consolidated financial statements and accompanying notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” appearing elsewhere in this prospectus.

	Fiscal Years(1)				
	1997	1998	1999	2000	2001
	(dollars and shares in thousands, except per share and store data)				
Statements of Operations Data:					
Net sales	\$443,541	\$491,430	\$514,324	\$571,476	\$622,481
Cost of goods sold, buying and occupancy	298,893	330,243	341,852	377,040	407,679
Gross profit	144,648	161,187	172,472	194,436	214,802
Selling and administrative	113,433	122,057	131,222	144,703	160,044
Litigation settlement	—	—	—	—	2,515
Depreciation and amortization	8,176	8,890	9,479	9,340	10,031
Operating income	23,039	30,240	31,771	40,393	42,212
Interest expense, net	12,879	22,975	21,574	22,008	19,629
Income before income taxes and extraordinary gain	10,160	7,265	10,197	18,385	22,583
Income taxes	(174)	2,838	4,000	7,324	9,218
Income before extraordinary gain	10,334	4,427	6,197	11,061	13,365
Extraordinary gain (loss) from early extinguishment of debt, net of income taxes	(1,597)	79	(372)	87	1,600
Net income	8,737	4,506	5,825	11,148	14,965
Redeemable preferred stock dividends	1,763	5,036	5,621	6,400	7,284
Net income (loss) available to common stockholders	\$ 6,974	\$ (530)	\$ 204	\$ 4,748	\$ 7,681
Earnings (loss) per share:					
Basic	\$ 1.87	\$ (0.27)	\$ 0.11	\$ 2.46	\$ 3.99
Diluted	\$ 1.67	\$ (0.27)	\$ 0.10	\$ 2.39	\$ 3.87
Shares used to calculate earnings per share:					
Basic	3,721	1,934	1,927	1,927	1,926
Diluted	4,177	1,934	1,987	1,987	1,986
Store Data:					
Same store sales increase(2)	6.6%	5.2%	2.0%	6.6%	4.9%
Net sales per gross square foot(3)	\$ 196	\$ 206	\$ 203	\$ 217	\$ 224
End of period stores	210	221	234	249	260
Average net sales per store(4)	\$ 2,218	\$ 2,324	\$ 2,285	\$ 2,405	\$ 2,448
Other Financial Data:					
Gross margin	32.6%	32.8%	33.5%	34.0%	34.5%
Adjusted EBITDA(5)	\$ 34,517	\$ 39,130	\$ 41,250	\$ 49,733	\$ 54,758
Adjusted EBITDA margin(6)	7.8%	8.0%	8.0%	8.7%	8.8%
Cash flow provided by (used in) operating activities	\$ (408)	\$ 30,561	\$ 15,599	\$ 19,857	\$ 31,521
Cash flow used in investing activities	(5,151)	(8,500)	(13,075)	(11,602)	(10,510)
Cash flow provided by (used in) financing activities	10,554	(25,398)	(3,888)	(9,593)	(16,899)
Depreciation and amortization	8,176	8,890	9,479	9,340	10,031
Balance Sheet Data:					
Cash and cash equivalents	\$ 9,792	\$ 6,455	\$ 5,091	\$ 3,753	\$ 7,865
Net working capital(7)	83,087	66,873	71,289	69,427	66,292
Total assets	229,414	222,502	233,562	253,078	252,528
Total debt	198,286	176,591	178,446	172,098	153,351
Redeemable preferred stock	35,000	39,866	45,408	51,721	58,911
Stockholders’ deficit	(94,510)	(95,102)	(94,902)	(90,156)	(82,476)

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- (1) Our fiscal year is the 52 or 53 week reporting period ending on the Sunday closest to the calendar year end. Fiscal 1998 consisted of 53 weeks as compared to 52 weeks for each of fiscal years 1997, 1999, 2000 and 2001.
 - (2) Same store sales data for a period presented reflect stores open throughout that period as well as the corresponding prior period.
 - (3) Net sales per gross square foot is calculated by dividing net sales for stores open the entire period by the total gross square footage for those stores.
 - (4) Average net sales per store is calculated by dividing net sales for stores open the entire period by total store count for stores open the entire period.
 - (5) EBITDA is operating income before depreciation and amortization. In fiscal 1997, adjusted EBITDA is EBITDA adjusted to exclude non-recurring transaction-related expenses of \$3,302 and in fiscal 2001, adjusted EBITDA is EBITDA adjusted to exclude accrued litigation expenses of \$2,515 relating to the exempt status of certain of our store managers. EBITDA and adjusted EBITDA are not measures of financial performance under generally accepted accounting principles, or GAAP. Although EBITDA and adjusted EBITDA should not be considered in isolation or as a substitute for net income, cash flows from operating activities and other income or cash flow statement data prepared in accordance with GAAP, or as a measure of profitability or liquidity, we understand that EBITDA and adjusted EBITDA are widely used by financial analysts as a measure of financial performance. Our calculation of EBITDA and adjusted EBITDA may not be comparable to similarly titled measures reported by other companies.
 - (6) Adjusted EBITDA margin is calculated by dividing adjusted EBITDA by net sales.
 - (7) Net working capital is defined as current assets less current liabilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

Throughout this section, our fiscal years ended January 2, 2000, December 31, 2000 and December 30, 2001 are referred to as 1999, 2000 and 2001, respectively. The following discussion and analysis of our financial condition and results of operations for 1999, 2000 and 2001 should be read in conjunction with the financial statements and related notes included elsewhere in this prospectus. Some of the information contained in this discussion and analysis or set forth elsewhere in this prospectus, including information with respect to our plans and strategies for our business, includes forward-looking statements that involve risk and uncertainties. You should review the "Risk Factors" set forth elsewhere in this prospectus for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained herein.

Overview

We are the leading sporting goods retailer in the western United States, operating 260 stores in 10 states under the name "Big 5 Sporting Goods." We provide a full-line product offering of over 25,000 stock keeping units in a traditional sporting goods store format that averages 11,000 square feet. Our product mix includes athletic shoes, apparel and accessories, as well as a broad selection of outdoor and athletic equipment for team sports, fitness, camping, hunting, fishing, tennis, golf, snowboarding and in-line skating. We believe over the past 46 years we have developed a reputation with the competitive and recreational sporting goods customer as a convenient neighborhood sporting goods retailer that consistently delivers value on quality merchandise.

Throughout our 46 year history, we have emphasized controlled growth. The following table summarizes our store count for the periods presented:

	Fiscal Year		
	1999	2000	2001
Big 5 Sporting Goods stores			
Beginning of period	221	234	249
New stores(1)	15	15	15
Stores relocated	(1)	—	(4)
Stores closed	(1)	—	—
End of period	234	249	260

(1) Stores that are relocated during any period are classified as new stores.

Basis of Reporting

Net Sales

Net sales consists 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.

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.

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, amortization of leasehold interest and goodwill and non-cash rent expense.

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 cost of goods sold for estimated decreases in inventory value. 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 too high 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 over-valued or that would require an impairment consideration at this time.

Results of Operations

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

	Fiscal Year		
	1999	2000	2001
Net sales	100.0%	100.0%	100.0%
Costs of sales	66.5	66.0	65.5
Gross profit	33.5	34.0	34.5
Selling and administrative	25.5	25.3	25.7
Litigation settlement	—	—	0.4
Depreciation and amortization	1.8	1.6	1.6
Operating income	6.2	7.1	6.8
Interest expense, net	4.2	3.9	3.2
Income before income tax expense	2.0	3.2	3.6
Income tax expense	0.8	1.3	1.5
Extraordinary gain/(loss)	(0.1)	0.0	0.3
Net income	1.1%	1.9%	2.4%

Fiscal 2001 Compared to Fiscal 2000

Net sales. Net sales increased by \$51.0 million, or 8.9%, to \$622.5 million in 2001 from \$571.5 million in 2000. This growth reflected an increase of \$27.1 million in same store sales and an increase of \$29.0 million in new store sales, which reflected the opening of 15 new stores during each of 2001 and 2000. The remaining variance was attributable to net sales from closed stores. Same store sales increased 4.9% for 2001 versus 2000. The increase in same store sales was primarily attributable to higher sales in the majority of our merchandise categories other than the skate category, which includes scooters. Sales during the last half of 2000 benefited significantly from the sale of scooters. We did not realize comparable scooter sales in 2001 and do not expect to do so in the future. Excluding scooter sales, net sales increased 10.2% and same store sales increased 6.2% for 2001. Store count at the end of 2001 was 260 versus 249 at the end of 2000 as we opened 15 new stores, of which four were replacement stores. We achieved positive same store sales of 3.9% during the fourth quarter of 2001, representing the twenty-fourth consecutive quarter of positive quarterly same store sales results. Excluding scooter sales, same store sales increased 7.3% for the fourth quarter in 2001.

Gross Profit. Gross profit increased by \$20.4 million, or 10.5%, to \$214.8 million in 2001 from \$194.4 million in 2000. Gross profit margin was 34.5% in 2001 compared to 34.0% in 2000. We were able to achieve higher gross profit margins primarily due to improved selling margins in the majority of our product categories as well as increased same store sales, which caused store occupancy costs as a percentage of sales to decrease.

Selling and Administrative. Selling and administrative expenses increased by \$15.3 million, or 10.6%, to \$160.0 million in 2001 from \$144.7 million in 2000. The increase was due primarily to increased personnel and related costs associated with supporting increased sales and new store openings. When measured as a percentage of net sales, selling and administrative expenses were 25.7% in 2001 compared to 25.3% in 2000. Approximately 0.1% of the increase in selling and administrative expense when measured as a percentage of sales resulted from one-time expenses related to added store labor hours allocated to implement our new point-of-sale systems. The remaining 0.3% of the 0.4% increase consisted of 0.1% each from increased store labor due to an increase in the minimum wage and regional hiring pressures during much of the year, higher payroll related benefit costs and increased expenses related to electric utility rate increases primarily in our California markets.

Litigation Settlement. On December 14, 2001, we reached a preliminary settlement of a class action lawsuit that alleged that we improperly classified our California store managers and first assistant store managers as exempt employees not entitled to overtime pay for work in excess of forty hours per week. We accrued \$2.5 million to cover estimated payments to class members as well as legal and other fees associated with the preliminary settlement of this complaint.

Depreciation and Amortization. Depreciation and amortization expense increased by \$0.7 million, or 7.4%, to \$10.0 million in 2001 from \$9.3 million in 2000. The increase was primarily due to added depreciation and amortization related to expenditures for the growth in our store base in 2001, as well as depreciation and amortization related to expenditures for our new point-of-sale register systems.

Interest Expense, net. Interest expense, net decreased by \$2.4 million, or 10.9%, to \$19.6 million in 2001 from \$22.0 million in 2000. This decrease reflected the January 2001 repurchase of \$12.5 million face value of our senior discount notes using lower cost borrowings from our credit facility, lower average daily debt balances in 2001 and lower average interest rates related to our credit facility in 2001 versus 2000.

Income Taxes. Provision for income taxes was \$9.2 million for 2001 and \$7.3 million for 2000. Our effective income tax rate for 2001 was 40.8% as compared to 39.8% for 2000. Income taxes are based upon the estimated effective tax rate for the entire year applied to pre-tax income for the year. The effective rate is subject to ongoing evaluation by management.

Extraordinary Gain from Early Extinguishment of Debt. We incurred an extraordinary gain of \$1.6 million, net of taxes, for 2001, in connection with the repurchase of \$12.5 million face value of our senior discount notes. We incurred an extraordinary gain of \$0.1 million, net of taxes, for 2000, in connection with the repurchase of \$7.8 million of our senior notes.

Fiscal 2000 Compared to Fiscal 1999

Net Sales. Net sales increased by \$57.2 million, or 11.1%, to \$571.5 million in 2000 from \$514.3 million in 1999. This growth reflected an increase of \$33.3 million in same store sales and an increase of \$26.0 million in new store sales, which reflected the opening of 15 stores during each of 2000 and 1999. The remaining variance was attributable to net sales from closed stores. Same store sales increased by 6.6% in 2000. The increase in same store sales was primarily attributable to higher net sales in the majority of our merchandise categories led by growth in the exercise, skating (including scooters), winter apparel, golf, water sports and snowboard equipment categories. The increase in same store sales was in part due to a significant increase in the sale of scooters during the second half of 2000. Excluding scooter sales, net sales increased 9.3% and same store sales increased 4.9% for 2000.

Gross Profit. Gross profit increased by \$21.9 million, or 12.7%, to \$194.4 million in 2000 from \$172.5 million in 1999. Gross profit was 34.0% of net sales in 2000 compared to 33.5% in 1999. We were able to achieve higher gross margins in the majority of our product categories in 2000.

Selling and Administrative. Selling and administrative increased by \$13.5 million, or 10.3%, to \$144.7 million in 2000 from \$131.2 million in 1999. The increase was primarily due to an \$8.4 million increase in store personnel expenses and related costs associated with supporting increased sales and new store openings and a \$2.9 million increase in advertising expenses that resulted primarily from increased advertising during parts of 2000. Selling and administrative was 25.3% of net sales in 2000 compared to 25.5% in 1999. The decrease resulted from the 6.6% increase in same store sales that allowed us to leverage certain costs included in selling and administrative.

Depreciation and Amortization. Depreciation and amortization decreased by \$0.2 million, or 1.5%, to \$9.3 million in 2000 from \$9.5 million in 1999. This decrease resulted primarily from the completion in the fourth quarter of 1999 of depreciation of fixed assets related to our original acquisition by Green Equity Investors, L.P. and management in 1992 and a decrease in non-cash rent expense. These decreases were partially offset by added depreciation and amortization related to expenditures for the growth in our store base during 2000, with store count growing from 234 at the end of 1999 to 249 at the end of 2000.

Interest Expense, net. Interest expense, net increased by \$0.4 million, or 2.0%, to \$22.0 million in 2000 from \$21.6 million in 1999. This increase was primarily due to higher interest rates on our credit facility in 2000 versus 1999 and accretion on our senior discount notes. This increase was partially offset by lower average debt balances for our credit facility and senior notes in 2000 versus 1999.

Income Taxes. Provision for income taxes was \$7.3 million in 2000 and \$4.0 million in 1999. Our effective income tax rate for 2000 was 39.8% as compared to 39.2% for 1999.

Extraordinary Gain/(Loss) From Early Extinguishment of Debt. We incurred an extraordinary gain of \$0.1 million, net of taxes in 2000, in connection with the repurchase of \$7.8 million of our senior notes. We incurred an extraordinary loss of \$0.4 million, net of taxes, in 1999, in connection with the repurchase of \$19.1 million of our senior notes and \$2.5 million face value of our senior discount notes.

Unaudited Quarterly Operating Results

The following table sets forth, for the periods indicated, our results of operations and selected items in our consolidated statements of operations as a percentage of total year results and as a percentage of net sales. The information for each of these quarters is unaudited and has been prepared on the same basis as our audited financial statements appearing elsewhere in this prospectus. In the opinion of our management, all necessary adjustments, consisting only of normal recurring adjustments, have been included to present fairly the unaudited quarterly results when read in conjunction with our audited consolidated financial statements and the related notes appearing elsewhere in this prospectus.

	Fiscal 2000				Fiscal 2001			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	(dollars in thousands)							
Results of operations:								
Net sales	\$129,712	\$137,271	\$146,169	\$158,324	\$143,179	\$151,456	\$158,085	\$169,761
Gross profit	42,888	48,394	48,913	54,241	47,837	53,609	52,956	60,400
Selling and administrative	34,941	36,167	37,060	36,535	38,252	40,537	40,888	40,367
Litigation settlement	—	—	—	—	—	—	—	2,515
Depreciation and amortization	2,329	2,317	2,325	2,369	2,574	2,570	2,364	2,523
Operating income	5,618	9,910	9,528	15,337	7,011	10,502	9,704	14,995
Net income	134	2,598	2,422	5,994	2,643	3,257	2,945	6,120
Same store sales increase	6.2%	5.0%	7.2%	8.1%	6.1%	5.8%	3.8%	3.9%
Percentage of total year:(1)								
Net sales	22.7%	24.0%	25.6%	27.7%	23.0%	24.3%	25.4%	27.3%
Operating income	13.9%	24.5%	23.6%	38.0%	16.6%	24.9%	23.0%	35.5%
Percentage of net sales:								
Gross profit	33.1%	35.3%	33.5%	34.3%	33.4%	35.4%	33.5%	35.6%
Selling and administrative	26.9%	26.3%	25.4%	23.1%	26.7%	26.8%	25.9%	23.8%
Litigation settlement	—	—	—	—	—	—	—	1.5%
Operating income	4.3%	7.2%	6.5%	9.7%	4.9%	6.9%	6.1%	8.8%

(1) Percentages may not add to 100.0% due to rounding.

We have experienced, and expect to continue to experience, fluctuations in our quarterly operating results. Although there are numerous factors that can contribute to these fluctuations, the principal factor is seasonality in the fourth fiscal quarter, which includes a seasonal weather change from fall to winter, the holiday selling season and the peak winter sports selling season.

Liquidity and Capital Resources

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

Net cash provided by operating activities for the years 2001, 2000 and 1999 was \$31.5 million, \$19.9 million and \$15.6 million. The increases in 2001 versus 2000 and 2000 versus 1999 primarily reflected higher net income and more efficient management of working capital.

Capital expenditures for the years 2001, 2000 and 1999 were \$10.5 million, \$11.6 million and \$13.1 million. The variances were primarily attributable to the opening of new stores as well as the timing of expenditures related to our new point-of-sale store register systems. We expended \$0.5 million on hardware and software to complete this project during 2001, \$2.2 million in 2000 and \$2.5 million in 1999. We expect capital expenditures for fiscal 2002 will range from approximately \$10 million to \$12 million, primarily to fund the opening of approximately 15 to 18 new stores, store maintenance and remodels, warehouse and headquarters maintenance and systems related expenditures.

Net cash used in financing activities for the years 2001, 2000 and 1999 were \$16.9 million, \$9.6 million and \$3.9 million. We repurchased \$19.1 million face value of our senior notes and \$2.5 million face value of our senior discount notes during 1999. We repurchased \$7.8 million face value of our senior notes during 2000. We repurchased \$12.5 million face value of our senior discount notes during 2001. We repurchased \$0.5 million face value of our senior notes and \$2.8 million face value of our senior discount notes in February 2002. We anticipate using a portion of our net proceeds from this offering to redeem all of the remaining senior discount notes. At December 30, 2001, we had \$91.4 million available for additional borrowings under our credit facility.

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 and satisfy our scheduled payments under debt obligations 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.

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

Payments Due by Period

	Total	1 Year	1-3 Years	4-5 Years	After 5 Years
			(in thousands)		
Long-term debt	\$103,806	\$ —	\$ —	\$ —	\$103,806
Operating leases commitments	266,822	33,350	65,134	54,813	113,525
Credit facility	25,000	—	25,000	—	—
Letters of credit	3,435	3,435	—	—	—
Total	\$399,063	\$36,785	\$90,134	\$54,813	\$217,331

Long-term debt consists of our senior notes that mature on November 13, 2007. We expect to repay the senior notes by the maturity date using a combination of drawings under our existing or replacement credit facility, expansion of our credit facility or replacement credit facility and the issuance of debt or equity securities. Long-term debt excludes our senior discount notes and Series A preferred stock, both of which we intend to redeem with a portion of the proceeds from this offering.

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 these leases as they expire. Payments for these lease commitments are provided for by cash flows generated from operations.

The credit facility provides for a maximum facility of \$125.0 million, subject to certain borrowing base limitations. 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 in December 2002. We may terminate the credit facility at any time upon 30 days prior written notice, provided that we are required to pay an early termination fee if we terminate prior to December 31, 2002. We plan to make additional borrowings or pay down the credit facility based on our cash flow requirements. We may re-

negotiate our credit facility prior to the expiration date depending on our future capital needs and the availability of alternative sources of financing.

If we fail to make any required payment under our credit facility or the indenture governing our 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.

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. We might not be able to effect these alternative strategies on satisfactory terms, if at all.

Impact of New Accounting Pronouncements

In June 2001, the FASB issued SFAS No. 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations. SFAS No. 141 specifies criteria that intangible assets acquired in a business combination must meet to be recognized and reported separately from goodwill. SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values and reviewed for impairment in accordance with SFAS No. 121 and subsequently, SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, after its adoption.

SFAS No. 142 requires us to evaluate our existing intangible assets and goodwill that were acquired in purchase business combinations and to make any necessary reclassifications in order to conform with the new classification criteria in SFAS No. 141 for recognition separate from goodwill. We are required to reassess the useful lives and residual values of all intangible assets acquired and make any necessary amortization period adjustments by the end of the first interim period after adoption. If an intangible asset is identified as having an indefinite useful life, we are required to test the intangible asset for impairment in accordance with the provisions of SFAS No. 142 within the first interim period. Impairment is measured as the excess of carrying value over the fair value of an intangible asset with an indefinite life. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim period.

In connection with SFAS No. 142's transitional goodwill impairment evaluation, the statement requires us to perform an assessment of whether there is an indication that goodwill is impaired as of the date of adoption. To accomplish this, we must identify our reporting units and determine the carrying value of each reporting unit by assigning our assets and liabilities, including our existing goodwill and intangible assets, to those reporting units as of December 31, 2001. We will then have up to six months from December 31, 2001 to determine the fair value of each reporting unit and compare it to the carrying amount of the reporting unit. To the extent the carrying amount of a reporting unit exceeds the fair value of the reporting unit, an indication exists that the reporting unit goodwill may be impaired and we must perform the second step of the transitional impairment test. The second step is required to be completed as soon as possible, but no later than the end of the fiscal year of adoption. In the second step, we must compare the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill, both of which would be measured as of the date of adoption. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit to all of the assets, recognized and unrecognized, and liabilities of the reporting unit in a manner similar to a purchase price allocation in accordance with SFAS No. 141. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in our statement of income.

As of the date of adoption of SFAS No. 142, we had net unamortized goodwill in the amount of approximately \$4.4 million and unamortized identifiable intangible assets in the amount of approximately \$7.6 million, all of which will be subject to the transition provisions of SFAS No. 142. Amortization expense related to goodwill was approximately \$0.25 million for each of 2001, 2000 and 1999. Because of the extensive effort needed to comply with adopting SFAS No. 141 and No. 142, it is not practicable to reasonably estimate the impact of adopting the statements on our financial statements, including whether we will be required to recognize any transitional impairment losses as the cumulative effect of a change in accounting principle.

In August 2001, the FASB issued SFAS No. 144. SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement requires that long-lived assets be 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 an asset to future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. SFAS No. 144 requires companies to separately report discontinued operations and extends that reporting to a component of an entity that either has been disposed of (by sale, abandonment or in a distribution to owners) or is classified as held for sale. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. We were required to adopt SFAS No. 144 on December 31, 2001. We do not expect the adoption of SFAS No. 144 to have a material impact on our financial condition or results of operations.

Impact of Inflation

We do not believe that inflation has a material impact on our earnings from operations.

Quantitative and Qualitative Disclosures About Market Risks

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% in 2002 as compared to the rate at December 30, 2001, our interest expense for 2002 would increase \$0.25 million based on the outstanding balance of our credit facility at December 30, 2001. We do not hold any derivative instruments and do not engage in hedging activities.

BUSINESS

Overview

We are the leading sporting goods retailer in the western United States, operating 260 stores in 10 states under the name “Big 5 Sporting Goods.” We provide a full-line product offering of over 25,000 stock keeping units in a traditional sporting goods store format that averages 11,000 square feet. Our product mix includes athletic shoes, apparel and accessories, as well as a broad selection of athletic equipment for team sports, fitness, camping, hunting, fishing, tennis, golf, snowboarding and in-line skating.

We believe that over the past 46 years we have developed a reputation with the competitive and recreational sporting goods customer as a convenient neighborhood sporting goods retailer that consistently delivers value on quality merchandise. Our stores carry a wide range of products at competitive prices from well-known brand name manufacturers, including Nike, Reebok, adidas, New Balance, Wilson, Spalding and Columbia. We also offer brand name merchandise produced exclusively for us, private label merchandise and specials on quality items we purchased through opportunistic buys of vendor over-stock and close-out merchandise. We reinforce our value reputation through weekly print advertising in major and local newspapers and mailers designed to generate customer traffic, drive net sales and build brand awareness.

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

Our accumulated management experience and expertise in sporting goods merchandising, advertising, operations and store development have enabled us to generate consistent, profitable growth. As of December 30, 2001, we have realized 24 consecutive quarterly increases in same store sales over comparable prior periods. All but one of our stores have generated positive store-level operating profit in each of the past five fiscal years. In fiscal 2001, we generated net sales of \$622.5 million and adjusted EBITDA of \$54.8 million. For the five fiscal years ended December 30, 2001, our net sales and adjusted EBITDA increased at compounded annual growth rates of 9.0% and 16.0%. We believe our success can be attributed to one of the most experienced management teams in the sporting goods industry, a value-based, execution-driven operating philosophy, a controlled growth strategy and a proven business model.

We are a holding company incorporated in Delaware on October 31, 1997. We conduct our business through Big 5 Corp., a wholly owned subsidiary incorporated in Delaware on October 27, 1997.

Our Strengths

We believe we have been successful due to the following competitive strengths:

Leading Position in Established Markets. We are the market leader in the western United States, operating almost four times as many stores in California, and more than twice as many stores in each of Washington, Oregon, Arizona and Nevada, as any of our full-line sporting goods competitors. This deep penetration of our established markets results in high customer awareness of the Big 5 Sporting Goods name and frequent visits to our conveniently located stores. More sporting goods shoppers identified Big 5 Sporting Goods as the place they purchased sporting goods in the greater Los Angeles area than any other store, according to the most recent Los Angeles Times Sporting Goods Survey, which was in 1999. The survey included specialty sporting goods stores such as Foot Locker and Champs, mass merchandisers such as Target and Kmart, and local sporting goods superstores such as Sport Chalet and Sportmart. Surveys in several of our other major metropolitan markets confirm our leading position as a preferred shopping destination for sporting goods.

Proven Store Format. Our typical store averages 11,000 square feet, is conveniently located near our target customers in either a free-standing location or a multi-store shopping center and is designed to minimize operating and maintenance costs. Our format enables us to have substantial flexibility regarding new store locations. We have successfully operated stores in major metropolitan areas and in areas with as few as 60,000 people. Our format differentiates us from superstores that typically average over 35,000 square feet, require larger target markets, are more expensive to operate and require higher net sales per store for profitability. Our format has also resulted in productivity that we believe is among the highest of any full-line sporting goods retailer, with net sales per gross square foot of approximately \$224 for fiscal 2001.

Superior Merchandising Capabilities. We have developed considerable expertise in identifying, stocking and selling a broad assortment of full-line sporting goods at competitive prices. We differentiate our product offering by editing our assortment to carry an extensive range of categories but only a selected number of different products in any one category. This effective merchandise mix allows us to offer attractive values to our customers while providing our customers the ability to comparison shop within a category. Our merchandise mix also allows us to minimize inventory levels and maximize shelf space for items we believe will provide attractive returns on investment. Our buyers average 17 years of experience with us and work closely with senior management to determine product selection, promotion and pricing. In addition to our buyers' experience, we utilize an integrated merchandising, distribution, point-of-sale and financial information system to continuously improve our merchandise mix, pricing strategy, advertising effectiveness and inventory levels.

Extensive Advertising Programs and Expertise. Through years of targeted advertising, we have solidified our reputation for offering quality products at attractive prices. We have advertised almost exclusively through weekly print advertisements since our founding in 1955. We typically utilize four-page color advertisements to highlight promotions across our merchandise categories. We believe our print advertising, which includes the weekly distribution of over 12.5 million newspaper inserts and mailers, consistently reaches more households in our established markets than that of our full-line sporting goods competitors. The consistency and reach of our print advertising programs drive sales and create high customer awareness of the name Big 5 Sporting Goods.

Significant Management Experience. We believe the experience, commitment and tenure of our professional staff provide a substantial competitive advantage. We were co-founded in 1955 by Robert W. Miller and are managed today by his son, Steven G. Miller, our President and Chief Executive Officer who has worked at our company for 34 years. Our senior-level managers have worked at our company for an average of 28 years. We spend significant time and resources developing our personnel and typically seek to fill positions through internal promotion. The tenure of our management and the scope of their accumulated experience has resulted in valuable expertise regarding our markets, store-level operations, merchandising and advertising.

Consistent Growth and Strong Cash Flow. We have been able to generate consistent growth, expand margins and increase our profitability because of our extensive experience, our proven strategy and steady execution of our business model. Our consistent net sales growth combined with improved purchasing, inventory management and economies of scale have enabled us to increase our gross margin from 32.6% in fiscal 1997 to 34.5% in fiscal 2001 and our adjusted EBITDA margin from 7.8% in fiscal 1997 to 8.8% in fiscal 2001. Our adjusted EBITDA growth combined with our strict management of working capital and low maintenance capital expenditure requirements have resulted in strong cash flow.

Strong Returns on New Store Openings. Throughout our history, we have sought to expand with the addition of new stores through a disciplined strategy of controlled growth. We have typically utilized cash generated by our operations to invest in new stores. New store openings represent attractive investment opportunities due to the relatively low investment required and the relatively short time in which our new stores become profitable. Based on our operating experience, a new store typically achieves store-level cash-on-cash returns of approximately 35% to 40% in its first full fiscal year of operation.

Our Strategy

Our objective is to build upon these competitive strengths to profitably grow our business and further advance our position as the leading sporting goods retailer in the western United States. We intend to accomplish this by:

Continuing our Dedicated Focus on Execution. Our accumulated management experience and expertise in sporting goods merchandising, advertising, operations and store development have enabled us to generate consistent, profitable growth. Our experienced management team has a dedicated focus on the day-to-day execution of our business model, which has been developed and enhanced over the past 46 years. We intend to continue this focus to further improve our business and operations.

Profitably Expanding our Store Base. Due to the flexibility of our proven store format, we believe we have numerous expansion opportunities in both new and existing markets. We plan to expand our store base by identifying high-traffic locations where we can take advantage of our name recognition, leverage our advertising and distribution costs, and capitalize on our economical store format to generate strong growth and returns. We plan to open 15 to 18 new stores in fiscal 2002. Beginning in fiscal 2003, we expect to open 15 to 20 new stores per year for the foreseeable future.

Generating Net Sales Growth Through Our Distinctive Merchandise Mix and Advertising Programs. We have realized 24 consecutive quarterly increases in same store sales over comparable prior periods. We intend to continue our consistent growth in net sales by continuously improving our distinctive merchandise mix and advertising programs. Through effective merchandising, strategic market positioning and compelling advertising, we believe we can continue to increase net sales at existing stores by increasing both the frequency of customer visits and our customers' average transaction size.

Enhancing Profitability Through Increased Operating Efficiencies. We intend to enhance profitability by continuously improving our operating efficiencies. Due to the fixed costs we incur in each market area, we are able to realize higher margins on revenues generated by additional stores in established markets by spreading these costs over more stores. For example, because distribution, advertising, purchasing and corporate expenses are relatively fixed costs, we are able to achieve higher margins on sales in stores opened in markets with other existing Big 5 Sporting Goods stores.

Our Stores

Throughout our history, we have focused on operating traditional, full-line sporting goods stores. Our stores generally range from 8,000 to 15,000 square feet and average 11,000 square feet. Our typical store is located in either free-standing street locations or multi-store shopping centers. Our numerous convenient locations and store format encourage frequent customer visits. In fiscal 2001, we processed approximately 18 million sale transactions, and our average transaction size was approximately \$34.

Our store format has resulted in productivity that we believe is among the highest of any full-line sporting goods retailer, with net sales per gross square foot of approximately \$224 for fiscal 2001. Our high net sales per square foot combined with our efficient store-level operations and low store maintenance costs allow us to generate consistently strong store-level returns. All but one of our stores open at least one year have generated positive store-level operating profit in each of the past five fiscal years. In addition, we have

never needed to close a store due to poor performance. The following table details our store locations as of December 30, 2001:

Regions	Year Entered	# of Stores	% of Total Store Base
California:			
Southern California	1955	88	33.8%
Northern California	1971	71	27.3
Total California		159	61.1
Washington	1984	28	10.8
Arizona	1993	17	6.5
Oregon	1995	16	6.2
Texas	1995	10	3.8
New Mexico	1995	8	3.1
Nevada	1978	8	3.1
Utah	1998	6	2.3
Idaho	1993	6	2.3
Colorado	2001	2	0.8
Total		260	100.0%

Expansion and Store Development

Throughout our operating history, we have sought to expand our business with the addition of new stores through a disciplined strategy of controlled growth. Our expansion within and beyond California has been systematic and designed to capitalize on our name recognition, economical store format and economies of scale related to distribution and advertising. Over the past five fiscal years, we have opened 71 stores, an average of 14 new stores annually, of which 73% were outside of California. The following table illustrates the results of our expansion program during the periods indicated:

Year	New Stores			Stores Relocated	Stores Closed	# of Stores at Period End
	California	Other Markets	Total			
1997	6	8	14	—	—	210
1998	3	9	12	(1)	—	221
1999	3	12	15	(1)	(1)	234
2000	5	10	15	—	—	249
2001	2	13	15	(4)	—	260

Our format enables us to have substantial flexibility regarding new store locations. We have successfully operated stores in major metropolitan areas and in areas with as few as 60,000 people. Our format differentiates us from superstores that typically average over 35,000 square feet, require larger target markets, are more expensive to operate and require higher net sales per store for profitability.

New store openings represent attractive investment opportunities due to the relatively low investment required and the relatively short time in which our stores become profitable. Our store format requires investments of approximately \$350,000 in fixtures and equipment and approximately \$400,000 in net working capital with limited pre-opening and real estate expenses due to leased locations built to our specifications. We seek to maximize new store performance by staffing new store management with experienced personnel from our existing stores. Based on our operating experience, a new store typically achieves store-level cash-on-cash returns of approximately 35% to 40% in its first full fiscal year of operation.

Our in-house store development personnel, who have opened an average of 13 stores during each of the past 10 fiscal years, analyze new store locations with the assistance of real estate firms that specialize in retail properties. We have identified numerous expansion opportunities to further penetrate our

established markets, develop recently entered markets and expand into new contiguous markets with attractive demographic, competitive and economic profiles. We expect to open 15 to 18 new stores in fiscal 2002. Beginning in fiscal 2003, we expect to open 15 to 20 new stores per year for the foreseeable future.

Management Experience

We believe the experience, commitment and tenure of our professional staff drives our superior execution and strong operating performance and gives us a substantial competitive advantage. The table below describes the tenure of our professional staff in some of our key functional areas:

	Number of Employees	Average # of Years With Us	Average Age
Senior Management	7	28	56
Vice Presidents	10	24	52
Buyers	13	17	44
Store District/ Division Supervisors	28	21	45
Store Managers	260	9	36

Merchandising

We target the competitive and recreational sporting goods customer with a full-line product offering at a wide variety of price points. We offer over 25,000 stock keeping units in a product mix that includes athletic shoes, apparel and accessories, as well as a broad selection of outdoor and athletic equipment for team sports, fitness, camping, hunting, fishing, tennis, golf, snowboarding and in-line skating. As a key element of our long history of success, we offer consistent value to consumers by offering a distinctive merchandise mix that includes a combination of well-known brand name merchandise, merchandise produced exclusively for us under a manufacturer's brand name, private label merchandise and specials on quality items we purchased through opportunistic buys of vendor over-stock and close-out merchandise.

We believe we enjoy significant advantages in making opportunistic buys of vendor over-stock and close-out merchandise because of our strong vendor relationships and rapid decision-making process. Although vendor over-stock and close-out merchandise typically represent only approximately 15% of our net sales, our weekly advertising highlights these items together with merchandise produced exclusively for us under a manufacturer's brand name in order to reinforce our reputation as a retailer that offers attractive values to our customers.

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

	Fiscal Year			
	1998	1999	2000	2001
Soft goods				
Athletic and sport apparel	16.8%	15.7%	16.4%	16.5%
Athletic and sport footwear	32.5	31.3	29.8	30.3
Total soft goods	49.3	47.0	46.2	46.8
Hard goods	50.7	53.0	53.8	53.2
Total	100.0%	100.0%	100.0%	100.0%

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

adidas	Coleman	Hillerich & Bradsby	Prince	Saucony
Asics	Columbia	Icon (ProForm)	Rawlings	Shimano
Bauer	Crosman	JanSport	Razor	Spalding
Bausch & Lomb	Easton	K2	Reebok	Speedo
Bike Athletic	Everlast	Lifetime	Remington	Timex
Browning	Fila	Mizuno	Rockport	Titleist
Bushnell	Franklin	New Balance	Rollerblade	Wilson
Casio	Head	Nike	Russell Athletic	Zebco

We also offer a variety of private label merchandise to complement our branded product offerings. Our private label items include shoes, apparel, golf equipment, binoculars, camping equipment and fishing supplies. Private label merchandise is sold under the labels Fives, Court Casuals, Sport Essentials, Rugged Exposure, Golden Bear, Pacifica, South Bay and Kemper, which is licensed from a third party.

Through our 46 years of experience across different demographic, economic and competitive markets, we have refined our merchandising strategy to increase net sales by offering a selection of products that meets customer demands while effectively managing inventory levels. In terms of category selection, we believe our merchandise offering compares favorably to our competitors, including the superstores. Our edited selection of products enables customers to comparison shop without being overwhelmed by a large number of different products in any one category. We further tailor our merchandise selection on a store-by-store basis in order to satisfy each region's specific needs and seasonal buying habits.

Our 13 buyers, who average 17 years of experience with us, work closely with senior management to determine the product selection, promotion and pricing of our merchandise mix. Management utilizes an integrated merchandising, distribution, point of sale and financial information system to continuously refine our merchandise mix, pricing strategy, advertising effectiveness and inventory levels to best serve the needs of our customers.

Advertising

Through years of targeted advertising, we have solidified our reputation for offering quality products at attractive prices. We have advertised almost exclusively through weekly print advertisements since our founding in 1955. We typically utilize four-page color advertisements to highlight promotions across our merchandise categories. We believe our print advertising, which includes the weekly distribution of over 12.5 million newspaper inserts or mailers, consistently reaches more households in our established markets than that of our full-line sporting goods competitors. The consistency and reach of our print advertising programs drive sales and create high customer awareness of the name Big 5 Sporting Goods.

We use our professional in-house advertising staff rather than an outside advertising agency to generate our advertisements, including design, layout, production and media management. Our in-house advertising department provides management the flexibility to react quickly to merchandise trends and to maximize the effectiveness of our weekly inserts and mailers. We are able to effectively target different population zones for our advertising expenditures. We place inserts in over 120 newspapers throughout our markets, supplemented in many areas by mailer distributions to create market saturation.

Vendor Relationships

We have developed strong vendor relationships over the past 46 years. In fiscal 2001, no single vendor represented greater than 6.0% of total purchases. We believe current relationships with our vendors are good. We benefit from the long-term working relationships that our senior management and our buyers have carefully nurtured throughout our history.

Management Information Systems

We have fully integrated management information systems that track, on a daily basis, individual sales transactions at each store, inventory receiving and distribution, merchandise movement and financial information. The management information system also includes a local area network that connects all corporate users to electronic mail, scheduling and the host system. The host system and our stores are linked by a network that provides satellite communications for credit card, in-house tender authorization, and daily polling of sales and merchandise movement at the store level.

Our in-store point-of-sale system tracks all sales by stock keeping unit and allows management to compare the current performance of each stock keeping unit against historical performance on a daily basis. The point-of-sale system uses satellite communications to verify credit cards and checks and to provide corporate data exchange. We completed the roll-out of this new point-of-sale system to each of our stores during the first half of 2001. We believe our management information systems are efficiently supporting our current operations and provide a foundation for future growth.

Distribution

We maintain a 440,000 square foot leased distribution center in Fontana, California that services all of our stores. The distribution center is fully integrated with our management information systems that provide warehousing and distribution capabilities. The distribution center was constructed in 1990 and warehouses the majority of the merchandise carried in our stores. We estimate that 98% of all store merchandise is received from this distribution center. We distribute merchandise from the distribution center to our stores at least once a week, Monday through Saturday, using a fleet of 28 leased and two owned tractors, and 12 leased and 66 owned trailers, as well as contract carriers. Our lease for the distribution center has an initial term that expires in 2006 and includes three additional five-year renewal options. Based on our expected net sales and store growth, we plan to replace our existing distribution center during the next two to three years.

Industry and Competition

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

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

Mass Merchandisers. This category includes discount retailers such as Wal-Mart, Target and Kmart and department stores such as Sears. These stores range in size from approximately 50,000 to 200,000 square feet and are primarily located in regional malls, shopping centers or free-standing sites. Sporting goods merchandise and apparel represent a small portion of the total merchandise in these stores and the selection is often more limited than in other sporting goods retailers. Although generally price competitive, discount and department stores typically have limited customer service in their sporting goods departments.

Specialty Sporting Goods Stores. This category consists of two groups. The first group generally includes athletic footwear specialty stores that are typically 2,000 to 20,000 square feet in size and are located in shopping malls. Examples include retail chains such as Foot Locker, Lady Foot Locker and The Athlete's Foot. These retailers are highly focused, with most of their sales coming from athletic footwear and team licensed apparel. The second group consists of pro shops and stores specializing in a particular sport or recreation. This group includes backpacking and mountaineering specialty stores and golf shops. Prices at specialty stores tend to be higher than prices at the sporting goods superstores and traditional sporting goods stores.

Sporting Goods Superstores. Stores in this category typically are larger than 35,000 square feet and tend to be freestanding locations. These stores emphasize high volume sales and a large number of stock keeping units. Examples include The Sports Authority, Sport Chalet and Gart Sports Company.

Internet Retailers. This category consists of numerous retailers that sell a broad array of new and used sporting goods products via the internet.

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

Employees

We manage our stores through regional, district and store-based personnel. Our senior vice president of store operations has general oversight responsibility for all of our stores. Field supervision is led by three regional supervisors who report directly to the senior vice president of store operations and who oversee 25 district supervisors. The district supervisors are each responsible for an average of 10 stores. Each of our stores has a store manager who is responsible for all aspects of store operations and who reports directly to a district supervisor. In addition, each store has at least two assistant managers, at least one full-time cashier, at least one management trainee and a complement of full and part-time associates.

As of December 30, 2001, we had approximately 7,240 full and part-time employees. The Steel, Paper House, Chemical Drivers & Helpers, Local Union 578, affiliated with the International Brotherhood of Teamsters, currently represents 446 hourly employees in our distribution center and some of our retail personnel in our stores. In September 2000, we negotiated two contracts with Local 578 covering these employees. These contracts expire on August 31, 2005. We have not had a strike or work stoppage in the last 21 years. We believe we provide working conditions and wages that are comparable to those offered by other retailers in the sporting goods industry and that our employee relations are good.

Employee Training

We have developed a comprehensive training program that is tailored for each store position. All employees are given an orientation and reference materials that stress excellence in customer service and selling skills. All full-time employees, including salespeople, cashiers and management trainees, receive additional training specific to their job responsibilities. Our tiered curriculum includes seminars, individual instruction and performance evaluations to promote consistency in employee development. The manager trainee schedule provides seminars on operational responsibilities such as merchandising strategy, loss prevention and inventory control. Ongoing store management training includes topics such as advanced merchandising, delegation, personnel management, scheduling, payroll control and loss prevention.

We also provide unique opportunities for our employees to gain knowledge about our products. These opportunities include "hands-on" training seminars and a sporting goods product expo. At the sporting goods product expo, our vendors set up booths where full-time store employees from every store receive intensive training on the products we carry. We believe this event is a successful program for both training and motivating our employees.

Properties

We lease all but one of our 260 store sites. Most of our long-term leases contain fixed-price renewal options and the average lease expiration term of our existing leases, taking into account renewal options, is approximately 20 years. Of the 259 store leases that we have, only 17 are due to expire in the next five years without renewal options.

Description of Service Marks and Trademarks

We use the Big 5 name as a service mark in connection with our business operations and have registered this name as a federal service mark. We have also registered Court Casuals, Golden Bear, Pacifica and Rugged Exposure as federal trademarks under which we sell a variety of merchandise. In fiscal 2001, 2.2% of our net sales resulted from sales of this private label merchandise.

Legal Proceedings

On August 9, 2001, we received a copy of a complaint filed in the California Superior Court in Los Angeles entitled Mosely, et al., v. Big 5 Corp., Case No. BC255749, alleging violations of the California Labor Code and the Business and Professions Code. This complaint was brought as a purported class action with two subclasses comprised of our California store managers and our California first assistant store managers. The plaintiffs allege that we improperly classified our store managers and first assistant store managers as exempt employees not entitled to overtime pay for work in excess of forty hours per week. They seek, on behalf of the class members, back pay for overtime allegedly not paid, statutory penalties in the amount of an additional thirty days' wages for each employee whose employment terminated in the four years preceding the complaint and injunctive relief to require us to treat our store management as non-exempt. On February 8, 2002, we filed a joint settlement with the court. Under the terms of the settlement, we agreed to pay \$32.46 per week of active employment as store manager during August 8, 1997 through December 31, 2001, the covered period, and \$25.50 per week of active employment as first assistant store manager during the covered period to each class member who submits a valid and timely claim form. We also agreed to pay attorneys' fees, plus costs and expenses, in the amount of \$690,000, as well as up to \$40,000 for the cost of the settlement administrator. In addition, we agreed to pay the class representatives an additional aggregate amount of \$32,500 for their service as named plaintiffs. We recorded a charge of approximately \$2.5 million in the fourth quarter of fiscal 2001 to provide for expected payments to the class members as well as legal and other fees associated with the settlement. The settlement is subject to the approval of the court. Once approved, the settlement will constitute a full and complete settlement and release of all claims related to the lawsuit. In addition, we admit no liability or other wrongdoing with respect to the claims set forth in the lawsuit. We intend to defend the case vigorously if the court does not approve the settlement agreement. If the settlement is not approved by the court, an adverse result in this litigation could harm our financial condition, and any required change in our labor practices, as well as the costs of defending this litigation, could have a negative impact on our results of operations.

In addition, 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 reserves deemed appropriate by management for such litigation matters. We believe no other litigation currently pending against us will have a material adverse effect on our financial position or results of operations.

MANAGEMENT

Executive Officers And Directors

Our executive officers and directors and their ages and positions upon the consummation of this offering will be as follows:

Name	Age	Positions
Robert W. Miller	78	Chairman Emeritus of the Board
Steven G. Miller	49	Chairman of the Board, President & Chief Executive Officer
Charles P. Kirk	46	Senior Vice President & Chief Financial Officer
Gary S. Meade	55	Senior Vice President, General Counsel & Secretary
Richard A. Johnson	56	Senior Vice President, Store Operations
Thomas J. Schlauch	57	Senior Vice President, Buying
Jeffrey L. Fraley	45	Senior Vice President, Human Resources
Dr. Michael D. Miller	52	Director
John G. Danhagl	46	Director

Robert W. Miller will serve as Chairman Emeritus of our board of directors upon the consummation of this offering. Mr. Robert W. Miller has served as Chairman of our board of directors since 1992, served as President from 1973 to 1992 and Chief Executive Officer from 1973 to 2000 and co-founded our company in 1955.

Steven G. Miller will serve as Chairman of our board of directors upon the consummation of this offering and will continue to serve as Chief Executive Officer and President, positions he has held since 2000 and 1992, respectively. Mr. Steven G. Miller has also served as a director since 1992. In addition, Mr. Steven G. Miller served as our Chief Operating Officer from 1992 to 2000 and our Executive Vice President, Administration from 1988 to 1992. Mr. Steven G. Miller is Robert W. Miller's son and Dr. Michael D. Miller's brother.

Charles P. Kirk has served as our Senior Vice President and Chief Financial Officer since 1992. Prior to joining us, Mr. Kirk served as Thrifty Corporation's Director of Planning and Vice President of Planning and Treasury since October 1990. Prior to that, Mr. Kirk held various financial positions with Thrifty Corporation's former parent, Pacific Enterprises, since 1981.

Gary S. Meade has served as our Senior Vice President since July 2001 and our General Counsel and Secretary since 1997. Mr. Meade also served as our Vice President from 1997 to 2001. Prior to joining us, Mr. Meade was Thrifty Corporation's Vice President, General Counsel and Secretary since 1992 and Thrifty Corporation's Vice President — Legal Affairs since 1979.

Richard A. Johnson has served as our Senior Vice President, Store Operations since 1992. Prior to that, Mr. Johnson was our Vice President, Store Operations since 1982.

Thomas J. Schlauch has served as our Senior Vice President, Buying since 1992. Prior to that, Mr. Schlauch served as our Head of Buying from 1990 to 1992 and as our Vice President, Buying from 1982 to 1990.

Jeffrey L. Fraley has served as our Senior Vice President, Human Resources since July 2001. Prior to that, Mr. Fraley served as our Vice President, Human Resources from 1992 to 2001.

Michael D. Miller, Ph.D. has served as a director since 1997. Dr. Miller is a senior mathematician at The RAND Corporation. Dr. Miller is Robert W. Miller's son and Steven G. Miller's brother.

John G. Danhagl has served as a director since 1997. Mr. Danhagl has been an executive officer and equity owner of Leonard Green & Partners, L.P. since 1995. From 1990 to 1995, Mr. Danhagl was a Managing Director at Donaldson, Lufkin & Jenrette Securities Corporation. Prior to joining Donaldson, Lufkin & Jenrette Securities Corporation, Mr. Danhagl was a Vice President at Drexel Burnham Lambert Incorporated. Mr. Danhagl is also a member of the board of directors of Arden Group, Inc., Twinlab

Corporation, Communications & Power Industries, Inc., Leslie's Poolmart, Inc., Liberty Group Publishing, Inc., VCA Antech, Inc., Petco Animal Supplies, Inc., MEMC Electronic Materials, Inc. and Diamond Triumph Auto Glass, Inc.

Board of Directors Composition

Our certificate of incorporation will, at the completion of this offering, provide for a classified board of directors consisting of three classes of directors, each serving staggered three-year terms. As a result, a portion of our board of directors will be elected each year. To implement the classified board of directors structure, prior to the completion of this offering, two of the members of the board of directors will be elected to one-year terms, two will be elected to two-year terms and two will be elected to three-year terms. Thereafter, directors will be elected for three-year terms.

At the completion of this offering, our board of directors intends to create an audit committee and a compensation committee. The composition of the audit committee will comply with the requirements of The Nasdaq Stock Market's National Market. The audit committee will make recommendations to our board of directors regarding the selection of independent auditors, review the results and scope of the audit and other services provided by our independent auditors, and review and evaluate our audit and control functions. We expect that the compensation committee will be comprised of at least two independent directors. The compensation committee will review and recommend to the board of directors the compensation and benefits of our employees.

Compensation Committee Interlocks and Insider Participation

The board of directors as a whole performed the functions that it intends to delegate to the compensation committee at the completion of this offering, and all of the board of directors participated in deliberations concerning executive compensation. No interlocking relationship will exist between our board of directors or the compensation committee and the board of directors or compensation committee of any other company, nor has any interlocking relationship existed in the past.

You should refer to the section of this prospectus entitled "Related Party Transactions" for information regarding transactions and relationships between us and the various members of our board of directors and entities affiliated with them.

Director Compensation

Our directors do not currently receive any compensation for services on our board of directors or any committee of our board of directors. Upon the completion of this offering, our non-employee directors will receive an annual fee of \$ for service on our board of directors, plus \$ for each meeting of the board of directors or any committee that they attend. Directors will also be reimbursed for all out-of-pocket expenses incurred in attending such meeting.

Executive Compensation

The following table shows compensation for our Chief Executive Officer and each of our four other most highly compensated executive officers for the past three fiscal years.

Name and Principal Position	Year	Annual Compensation	
		Salary	Bonus
Robert W. Miller Chairman of the Board	2001	\$340,000	\$600,000
	2000	330,000	540,000
	1999	330,000	445,000
Steven G. Miller President & Chief Executive Officer	2001	\$325,000	\$485,000
	2000	300,000	425,000
	1999	285,000	330,000
Thomas J. Schlauch Senior Vice President, Buying	2001	\$196,000	\$160,000
	2000	186,000	140,000
	1999	178,000	109,000
Richard A. Johnson Senior Vice President, Store Operations	2001	\$168,000	\$140,000
	2000	158,000	120,000
	1999	150,000	90,000
Charles P. Kirk Senior Vice President & Chief Financial Officer	2001	\$178,000	\$125,000
	2000	168,000	105,000
	1999	160,000	80,000

401(k) Plan

We maintain a savings plan qualified under Sections 401(a) and (k) of the Internal Revenue Code. Generally, all our full-time employees who are at least 21 years of age, have earned a year of eligibility service, or become employed in a position that qualifies for plan participation, and who are not subject to collective bargaining, or if they are subject to collective bargaining but are not covered by another pension plan, are eligible to participate in the 401(k) plan. We may make discretionary matching contributions of up to 4% of a participant's compensation to the 401(k) plan in addition to any discretionary profit sharing contribution to the 401(k) plan.

Stock Option and Stock Purchase Plans

1997 Management Equity Plan

Our 1997 management equity plan was adopted by our board of directors and approved by our stockholders in November 1997. The 1997 management equity plan provides for the grant of incentive stock options and non-qualified stock options to our key employees as well as for stock purchase rights. A total of 560,000 shares of our common stock have been reserved for issuance pursuant to the 1997 management equity plan of which no more than 100,000 shares may be subject to stock options outstanding at any time. As of December 30, 2001, 462,309 shares of restricted common stock had been sold under the 1997 management equity plan. We do not intend to make any more grants under the 1997 management equity plan.

Our board of directors intends to delegate general administrative authority over the 1997 management equity plan to our compensation committee. The members of the compensation committee will be "non-employee directors" within the meaning of Rule 16b-3 of the Securities Exchange Act. The administrator has broad authority to designate recipients of awards and determine the terms and provisions of awards, including the price, expiration date, vesting schedule and terms of exercise.

The exercise price of stock options, and the purchase price of restricted stock, must be at least 85% of the fair market value of the common stock on the date of grant. Stock options granted to optionees who own more than 10% of our outstanding common stock must have an exercise price that is at least 110% of the fair market value of the common stock. The purchase price of restricted stock granted to any person

who owns stock possessing more than 10% of the total combined voting power of our stock must have a purchase price of at least 100% of the fair market value of the common stock. Options expire no later than ten years from the date of grant. The 1997 management equity plan does not allow for the transfer of options or stock purchase rights.

After the termination of an optionee's employment or services for reasons other than for cause, death or disability, exercisable options will remain exercisable until at least 30 days after the date of termination of employment. If termination is due to death or disability, exercisable options will remain exercisable until at least six months after the date of death or termination of employment. If termination is for cause, all options, including vested and exercisable ones, are immediately terminated and cancelled.

We have the authority to amend, revise, suspend or terminate the 1997 management equity plan provided that our doing so does not materially adversely affect the rights of any participant or increase the number of shares for which options or stock awards may be granted.

2002 Stock Incentive Plan

In connection with the consummation of this offering, we intend to adopt our 2002 stock incentive plan. The 2002 stock incentive plan provides for the grant of incentive stock options and non-qualified stock options to our employees, directors and specified consultants. We intend to reserve a total of _____ shares of our common stock for issuance pursuant to the 2002 stock incentive plan.

Our board of directors intends to delegate general administrative authority over the 2002 stock incentive plan to our compensation committee. The members of the compensation committee will be "non-employee directors" within the meaning of Rule 16b-3 of the Securities Exchange Act. The administrator has broad authority to designate recipients of awards and determine the terms and provisions of awards, including the price, expiration date, vesting schedule and terms of exercise.

The exercise price of stock options must be at least 100% of the fair market value of the common stock on the date of grant. Incentive stock options granted to optionees who own more than 10% of our outstanding common stock must have an exercise price that is at least 110% of fair market value of the common stock. Options expire no later than ten years from the date of grant, or five years with respect to incentive stock options granted to optionees who own more than 10% of our outstanding common stock. The 2002 stock incentive plan does not allow for the transfer of options.

After the termination of the employment or services of an optionee for reasons other than for cause, death or disability, exercisable options will remain exercisable until the earlier of their expiration as set forth in the option agreement or three months after the date of termination of employment. If termination is due to death or disability, exercisable options will remain exercisable until the earlier of the expiration date stated in the option agreement or twelve months after the date of death or termination of employment. If termination is for cause, all options, including vested and exercisable ones, are immediately terminated and cancelled.

Upon the occurrence of specified events that result in a change of our organizational or ownership structure, the administrator has the discretion to do one or more of the following:

- shorten the exercise period of the options;
- accelerate the vesting schedule of the options;
- arrange to have the surviving or successor entity assume or replace the options; or
- cancel the options and pay to the optionee in cash, with respect to each exercisable option, an amount equal to the excess of the fair market value of the common stock over the exercise price of the option.

We have the authority to amend, alter, suspend or terminate the 2002 stock incentive plan provided that our doing so does not impair the rights of any optionee or increase the number of shares for which options may be granted.

Employment Agreements

Steven G. Miller and Robert W. Miller are employed with us pursuant to employment agreements entered into in January 1993. According to these employment agreements, Steven G. Miller and Robert W. Miller are to continue employment with us for successive one-year periods renewing annually on December 31, unless any party gives timely notice to the other that the employment term shall not be so extended. We are negotiating amendments to these employment agreements that will be effective upon the consummation of this offering.

Limitations on Directors' Liability and Indemnification

Upon the closing of the offering contemplated by this prospectus, we will adopt an amended and restated certificate of incorporation which, together with our amended and restated bylaws, will provide our directors and key officers with limitations on liability and indemnification rights described below.

Our amended and restated certificate of incorporation will limit the liability of directors to the maximum extent permitted by Delaware law. Delaware law provides that directors of a corporation will not be personally liable for monetary damages for breach of their fiduciary duties as directors, except liability for any of the following:

- any breach of their duty of loyalty to the corporation or its stockholders;
- acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;
- unlawful payments of dividends or unlawful stock repurchases or redemptions; or
- any transaction from which the director derived an improper personal benefit.

This limitation of liability does not apply to liabilities arising under the federal securities laws and does not affect the availability of equitable remedies such as injunctive relief or rescission.

Our amended and restated certificate of incorporation and amended and restated bylaws will provide that we will indemnify our directors and executive officers to the fullest extent permitted by law. We believe indemnification under our amended and restated bylaws covers at least negligence and gross negligence on the part of indemnified parties. In addition to indemnification provided for in our amended and restated bylaws, we intend to enter into agreements to indemnify our directors and executive officers. These agreements, among other things, will provide for indemnification of our directors and executive officers for expenses, judgments, fines and settlement amounts incurred by any such person in any action or proceeding arising out of such person's services as a director or executive officer or at our request. We believe these provisions and agreements are necessary to attract and retain qualified persons as directors and executive officers.

The limited liability and indemnification provisions in our amended and restated certificate of incorporation and amended and restated bylaws may discourage stockholders from bringing a lawsuit against our directors for breach of their fiduciary duty and may reduce the likelihood of derivative litigation against our directors and officers, even though a derivative litigation, if successful, might otherwise benefit us and our stockholders. A stockholder's investment in us may be adversely affected to the extent we pay the costs of settlement or damage awards against our directors or officers under these indemnification provisions.

At present, there is no pending litigation or proceeding involving any of our directors, officers or employees in which indemnification is sought, nor are we aware of any threatened litigation that may result in claims for indemnification.

Directors' and Officers' Insurance

We currently maintain a directors' and officers' liability insurance policy that provides our officers and directors with liability coverage in amounts we consider appropriate.

RELATED PARTY TRANSACTIONS

Relationship with Pacific Enterprises, Thrifty Corporation and Rite Aid Corp.

Prior to September 1992, the predecessor to what is now our wholly owned operating subsidiary was a wholly owned subsidiary of Thrifty Corporation, which in turn was a wholly owned subsidiary of Pacific Enterprises. In December 1996, Thrifty Corporation was acquired by Rite Aid Corp.

As a result of our prior relationship with Thrifty Corporation and its affiliates, we continue to maintain certain relationships with Rite Aid Corp. and Sempra Energy, the successor to Pacific Enterprises. These relationships include continuing indemnification obligations of Sempra Energy to us for certain environmental matters and obligations under ERISA arising out of Pacific Enterprises' prior ownership of all of the capital stock of Thrifty Corporation and the predecessor to what is now our wholly owned subsidiary, including (1) indemnification for certain environmental liability costs incurred by us resulting from a contravention of applicable law relating to the prior and then existing use and ownership of the properties and assets (including all real estate) previously owned by Pacific Enterprises and (2) indemnification for certain liability costs incurred by us resulting from a contravention by Pacific Enterprises of any applicable law relating to benefit plans sponsored by Thrifty PayLess, Inc. or Thrifty Corporation. The indemnification obligations of Sempra Energy relating to environmental liabilities, which pursuant to their terms are limited in scope and aggregate maximum dollar amounts, will continue until September 25, 2012, while the indemnification obligations relating to Sempra Energy's obligations under ERISA will continue until the expiration of all applicable statutes of limitations. Green Equity Investors III, L.P., an affiliate of Leonard Green & Partners, L.P., holds convertible preferred stock in Rite Aid Corp. that, if converted, would represent approximately 11% of its outstanding stock.

Conflicts of Interest

Green Equity Investors, L.P., an affiliate of Leonard Green & Partners, L.P., holds a significant equity interest in us and also holds an equity interest in Gart Sports Company, one of our competitors. John G. Danhagl, an executive officer and equity owner of Leonard Green & Partners, L.P., currently serves on our board of directors. Jonathan Sokoloff and Jonathan Seiffer, equity owners of Leonard Green & Partners, L.P. and former members of our board of directors, currently serve on Gart Sports Company's board of directors. Mr. Danhagl may have conflicts of interest with respect to certain matters affecting us. All of these 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 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.

Management Services Agreement

We entered into a management services agreement with Leonard Green & Associates, L.P., an affiliate of Leonard Green & Partners, L.P., on November 13, 1997. Pursuant to the management services agreement, we pay an annual fee of \$333,333 to Leonard Green & Associates, L.P. for ongoing management, consulting and financial planning services. These services include regular consulting services regarding the status of the financial markets as they relate to specialty retailers and advice on financing alternatives, note repurchases and potential refinancings. We also pay reasonable and customary fees to Leonard Green & Associates, L.P. for services rendered in connection with any major financial transactions that we may undertake from time to time. In addition to the fees we pay for these services, we also pay reasonable out-of-pocket expenses incurred in connection with rendering such services. While we believe that we obtain significant benefits from these services, we do not believe that our business, operating results or financial condition are materially dependent on them. In addition, we believe we would be able to obtain similar services from other consultants or investment banking firms in the event that the

management services agreement were to be terminated. The agreement does not provide either party the right to terminate prior to the stated expiration date of May 31, 2005, whether as the result of a change of control or otherwise. We believe the terms of the management services agreement are comparable to what could be obtained from unrelated, but equally qualified, third parties.

Stockholders Agreement

We entered into a stockholders agreement with Green Equity Investors, L.P., Robert W. Miller and Steven G. Miller on November 13, 1997. We are currently negotiating an amendment to the stockholders agreement that will be effective upon the consummation of this offering.

Redemption of Series A Preferred Stock

We intend to use a portion of our net proceeds from this offering to redeem all of our outstanding shares of Series A preferred stock. Green Equity Investors, L.P. and its affiliates currently own 309,071 of the 350,000 outstanding shares of Series A preferred stock. See "Use of Proceeds."

**SECURITY OWNERSHIP BY MANAGEMENT AND
PRINCIPAL STOCKHOLDERS**

The following table sets forth information regarding beneficial ownership of our common stock as of December 30, 2001 by:

- each of the individuals listed under “Executive Compensation” on page 38;
- each of our directors;
- each person, or group of affiliated persons, who is known by us to own beneficially 5% or more of our common stock; and
- all current directors and executive officers as a group.

Except as otherwise indicated in the footnotes below, each beneficial owner has the sole power to vote and to dispose of all shares held by that holder. Percentage ownership is based on 1,926,200 shares of common stock outstanding as of December 30, 2001 and _____ shares of common stock outstanding after completion of this offering.

Name(1)	Beneficial Ownership of Common Stock Before Offering		Beneficial Ownership of Common Stock After Offering	
	Shares	%	Shares	%
Robert W. Miller	250,809(2)	13.0%		
Steven G. Miller	200,000(3)	10.4%		
Michael D. Miller	100,000(4)	5.2%		
Richard A. Johnson	48,000	2.5%		
Charles P. Kirk	48,000	2.5%		
Thomas J. Schlauch	40,000	2.1%		
John G. Danhagl	1,524(5)	*		
Green Equity Investors, L.P.	723,577	37.6%		
All Executive Officers and Directors as a Group	1,439,100(6)	74.7%		

* The percentage of shares beneficially owned does not exceed 1% of the class.

- (1) The address for each stockholder is 2525 East El Segundo Boulevard, El Segundo, California 90245, except Green Equity Investors, L.P. and Mr. Danhagl for which the address is 11111 Santa Monica Boulevard, Suite 2000, Los Angeles, California 90025.
- (2) Includes 100,809 shares of common stock held by Robert W. Miller and Florence H. Miller, Trustees of the Robert W. and Florence H. Miller Family Trust dated January 11, 1991 and 150,000 shares of common stock held by Robert W. Miller and Florence H. Miller, Family Partners L.P.
- (3) Includes 200,000 shares of common stock held by Steven G. Miller and Jacquelyne G. Miller, Trustees of the Steven G. Miller and Jacquelyne G. Miller Trust dated September 13, 1990.
- (4) Includes 100,000 shares of common stock held by Michael D. Miller, Trustee of the Miller Living Trust dated December 11, 1997.
- (5) Includes 154 shares of common stock owned directly by John G. Danhagl and 1,370 shares of common stock owned by John G. Danhagl and Kathy Danhagl, as joint tenants. Additionally, Mr. Danhagl is an executive officer and equity owner of Leonard Green & Partners, L.P. and may be deemed to be a beneficial owner of the shares of common stock owned by Green Equity Investors, L.P. because of his interest in Leonard Green & Partners, L.P., which is an affiliate of the sole general partner of Green Equity Investors, L.P.
- (6) Includes the shares identified in note (5) above.

DESCRIPTION OF CAPITAL STOCK

General

Upon the completion of this offering, we will be authorized to issue _____ shares of common stock, 350,000 shares of Series A preferred stock, \$0.01 par value per share, and _____ shares of undesignated preferred stock, \$0.01 par value per share. The following description of our capital stock does not purport to be complete and is subject to and qualified in its entirety by our amended and restated certificate of incorporation and amended and restated bylaws, which are included as exhibits to the registration statement of which this prospectus forms a part, and by the provisions of applicable Delaware law.

Common Stock

As of December 30, 2001, there were 1,926,200 shares of common stock outstanding, which were held by approximately 250 stockholders. The holders of common stock are entitled to one vote per share on all matters to be voted upon by the stockholders, including the election of all three classes of directors. Subject to preferences that may be applicable to any outstanding preferred stock, the holders of common stock are entitled to receive ratably such dividends, if any, as may be declared from time to time by the board of directors out of funds legally available for that purpose. In the event of our liquidation, dissolution or winding up, the holders of common stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of preferred stock, if any, then outstanding. The holders of common stock do not have preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the common stock. We anticipate using a portion of our net proceeds to repurchase common stock from our non-executive employees.

Series A Preferred Stock

We issued our redeemable Series A 13.45% senior exchangeable preferred stock under a certificate of designations filed with the Secretary of State of Delaware on November 13, 1997. As of December 30, 2001, there were 350,000 shares of our Series A preferred stock outstanding, which were held of record by 34 stockholders. The Series A preferred stock ranks senior to all classes of common stock, bears cumulative dividends at the rate of 13.45% per annum and has a liquidation preference over our common stock equal to \$100 per share plus accrued and unpaid dividends thereon. In addition, the Series A preferred stock is subject to mandatory redemption by us on November 13, 2009, and our optional redemption, at a premium declining to par after November 13, 2002 and prior to November 13, 2009.

On or prior to November 13, 2002, we may redeem any or all of the shares of Series A preferred stock then outstanding at a redemption price equal to 110% of the liquidation preference thereof, plus accrued and unpaid dividends, with the proceeds of an underwritten public offering of our common stock. We anticipate using a portion of our net proceeds from this offering to redeem all of the outstanding shares of Series A preferred stock.

Preferred Stock

The board of directors has the authority, without action by the stockholders, to designate and issue preferred stock in one or more series and to designate the rights, preferences and privileges of each series, which may be greater than the rights of the common stock. It is not possible to state the actual effect of the issuance of any shares of preferred stock upon the rights of holders of the common stock until the board of directors determines the specific rights of the holders of such preferred stock. However, the effects might include, among other things:

- restricting dividends on the common stock;
- diluting the voting power of the common stock;

- impairing the liquidation rights of the common stock; or
- delaying or preventing a change in control of us without further action by the stockholders.

Warrant

As of December 30, 2001, a warrant to purchase 60,000 shares of our common stock was outstanding. The warrant is exercisable at any time with an exercise price of \$0.01 per share. The warrant expires on November 30, 2008.

Registration Rights

Green Equity Investors, L.P. has the right to demand, on two occasions, that we file a registration statement under the Securities Act covering all or a portion of the 723,577 shares of our common stock held by it. In addition, specified holders will have piggyback registration rights with respect to 1,444,800 shares of our common stock, including the shares held by Green Equity Investors, L.P., and the holder of a warrant to purchase 60,000 shares of our common stock underlying a warrant. Registration of these shares of our common stock would permit their sale into the market immediately. Each of these holders, including Green Equity Investors, L.P., has agreed not to sell or otherwise dispose of any of their shares, other than shares sold in this offering, for a period of 180 days after the consummation of this offering. Please refer to the information in the prospectus under the heading “Shares Eligible for Future Sale — Registration Rights” for a more detailed discussion of these registration rights.

Delaware Anti-Takeover Law and Certain Charter and Bylaw Provisions

Provisions of Delaware law and our amended and restated certificate of incorporation and amended and restated bylaws to be adopted immediately prior to the closing of this offering could make the following more difficult:

- the acquisition of us by means of a tender offer;
- the acquisition of us by means of a proxy contest or otherwise; or
- the removal of our incumbent officers and directors.

These provisions, summarized below, are expected to discourage certain types of coercive takeover practices and inadequate takeover bids. These provisions are also designed to encourage persons seeking to acquire control of us to first negotiate with our board of directors. We believe the benefits of increased protection of our potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure us outweigh the disadvantages of discouraging such proposals because negotiation of such proposals could result in an improvement of their terms.

Classified Board of Directors. Under our amended and restated certificate of incorporation and our amended and restated bylaws, our board of directors is divided into three classes of directors serving staggered three-year terms, with one-third of the board of directors being elected each year.

Stockholder Meetings. Under our amended and restated certificate of incorporation and our amended and restated bylaws, only the board of directors, the chairman of the board of directors, the chief executive officer and the president may call special meetings of stockholders.

Requirements for Advance Notification of Stockholder Proposals and Director Nominations. Our amended and restated bylaws establish advance notice procedures with respect to stockholder proposals and the nomination of candidates for election as directors, other than nominations made by or at the direction of the board of directors or a committee of the board of directors. These provisions may preclude stockholders from bringing matters before an annual meeting of stockholders or from making nominations for directors at an annual meeting of stockholders.

No Action by Written Consent. Under our amended and restated certificate of incorporation, stockholders may only take action at an annual or special meeting of stockholders and may not act by written consent.

Delaware Anti-Takeover Law. We are subject to Section 203 of the Delaware General Corporation Law, an anti-takeover law. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a “business combination” with an “interested stockholder” for a period of three years following the date the person became an interested stockholder, unless the “business combination” or the transaction in which the person became an interested stockholder is approved in a prescribed manner. Generally, a “business combination” includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. Generally, an “interested stockholder” is a person who, together with affiliates and associates, owns or within three years prior to the determination of interested stockholder status, owned, 15% or more of a corporation’s voting stock. The existence of this provision may have an anti-takeover effect with respect to transactions not approved in advance by the board of directors, including discouraging attempts that might result in a premium over the market price for the shares of common stock held by stockholders.

No Cumulative Voting. Our amended and restated certificate of incorporation and amended and restated bylaws do not provide for cumulative voting in the election of directors.

Undesignated Preferred Stock. The authorization of undesignated preferred stock makes it possible for our board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to change control of us. These and other provisions may have the effect of deferring hostile takeovers or delaying changes in control or management of us.

Transfer Agent and Registrar

The transfer agent and registrar for the common stock is _____.

Listing

We intend to file an application to have our common stock approved for quotation on The Nasdaq Stock Market’s National Market under the symbol “_____.”

DESCRIPTION OF CERTAIN INDEBTEDNESS

The Credit Facility

Big 5 Corp., our wholly owned subsidiary, has a non-amortizing \$125.0 million revolving credit facility. The credit facility bears interest at various rates based on Big 5 Corp.'s performance, with a floor of LIBOR plus 1.50% or the J.P. Morgan Chase prime lending rate and a ceiling of LIBOR plus 2.50% or the J.P. Morgan Chase prime lending rate plus 0.75% and is secured by Big 5 Corp.'s trade accounts receivable, merchandise inventories, service marks and trademarks and other general intangible assets, including trade names. The credit facility is not guaranteed by us. As of December 30, 2001, loans under the credit facility bear interest at a rate of LIBOR plus 1.50% or the J.P. Morgan Chase prime lending rate. An annual fee of 0.325%, payable monthly, is assessed on the unused portion of the credit facility. As of December 30, 2001, Big 5 Corp. had \$25.0 million in LIBOR and prime lending rate borrowings and letters of credit of \$3.4 million outstanding. The maximum eligible borrowing available under the credit facility, including outstanding letters of credit, is limited to the lesser of \$125.0 million and an amount equal to 70% of the aggregate value of eligible inventory during November through February and 65% of the aggregate value of eligible inventory during the remaining months of the year. Available borrowings over and above actual LIBOR and prime rate borrowings and letters of credit outstanding on the credit facility amounted to \$91.4 million as of December 30, 2001.

Covenants. The credit facility contains financial covenants that require Big 5 Corp. to satisfy, on a consolidated basis, specified quarterly financial tests, including:

- a minimum net worth of negative \$50.0 million; and
- an availability of \$5.0 million under the credit facility or a minimum fixed charge coverage ratio of 1.15 to 1.0.

The credit facility also contains a number of other customary covenants that, among other things, restrict Big 5 Corp.'s ability to:

- dispose of assets;
- incur additional debt;
- prepay other debt, subject to specified exceptions, or amend specified debt instruments;
- pay dividends;
- create liens on assets;
- make investments, loans or advances;
- make acquisitions;
- engage in mergers or consolidations;
- change the business conducted;
- engage in sale and leaseback transactions;
- make capital expenditures or engage in transactions with affiliates; and
- otherwise undertake various corporate activities outside the ordinary course of business.

Events of Default. The credit facility also contains customary events of default, including defaults based on:

- nonpayment of principal, interest or fees when due, subject to specified grace periods;
- events of bankruptcy and insolvency;
- material breach of covenants;

- material inaccuracy of representations and warranties;
- violations of the ERISA laws;
- specified occurrences related to the senior notes, such as amending the indenture governing the senior notes or prepaying, in whole or part, the senior notes, without prior written consent of the lenders; and
- cross-defaults to other debt.

Change of Control. The credit facility provides that, on 15 days prior notice, Big 5 Corp. may merge its subsidiaries or another entity in the retail sporting goods industry into itself, without prior consent of the lenders, so long as:

- Big 5 Corp. is the surviving entity;
- no lien on the assets of the subsidiary or other entity will survive the merger other than permitted encumbrances under the credit facility;
- the entity was formed and maintains its principal place of business and assets in the United States; and
- Big 5 Corp. is in full compliance with the terms of its debt instruments.

Any other change in the structure or existence of Big 5 Corp. requires the prior written consent of the lenders.

Termination. 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 in December 2002. Unless it is terminated, the credit facility will continue on an annual extension basis from anniversary date to anniversary date beginning in January 2003. The lenders may also terminate the credit facility upon the occurrence of an event of default upon notice to Big 5 Corp.; however, no notice of termination is required if the event of default is an event of bankruptcy or insolvency. Big 5 Corp. may terminate the credit facility at any time upon 30 days prior written notice; however, if Big 5 Corp. terminates the credit facility prior to December 31, 2002, it must pay an early termination fee.

The Senior Notes

In connection with our 1997 recapitalization, Big 5 Corp., our wholly owned subsidiary, issued \$131.0 million face amount of 10.875% senior notes due 2007, less a discount of approximately \$0.6 million based on an imputed interest rate of 10.95%, of which \$103.8 million currently remains outstanding. The senior notes mature on November 15, 2007. The senior notes bear interest at the rate per annum of 10.875% from the most recent interest payment date to which interest has been paid or provided for, payable in semi-annual installments on May 15 and November 15 of each year. Interest is calculated on the basis of a 360-day year consisting of twelve 30-day months. The last date on which interest was paid on the senior notes was November 15, 2001. There are no mandatory payments of principal on the senior notes prior to their maturity in 2007.

Priority. The senior notes are general unsecured obligations, rank senior in right of payment to all existing and future indebtedness of Big 5 Corp. that is subordinated to the senior notes and rank *pari passu* in right of payment with all current and future unsubordinated indebtedness of Big 5 Corp., subject to certain restrictions due to the securitization of certain assets. The senior notes are not guaranteed by us.

Redemption. The senior notes are redeemable, in whole or in part, at Big 5 Corp.'s option, at any time on or after November 15, 2002. The senior notes will be redeemable at the following redemption prices, expressed as percentages of the principal amount, if redeemed during the twelve month period

commencing November 15 of the years indicated below at the following redemption prices, plus accrued and unpaid interest and liquidated damages, if any, to the date of redemption:

Year	Percentage
2002	105.475%
2003	103.650%
2004	101.825%
2005 and thereafter	100.000%

Covenants. The indenture governing the senior notes contains a number of customary covenants, including a provision regarding a change in control. The indenture provides that a change of control of Big 5 Corp. is permitted so long as:

- Big 5 Corp. is the surviving entity or the surviving entity was formed and maintains its principal place of business and assets in the United States and assumes by supplemental indenture the obligations of Big 5 Corp. under the indenture;
- no default or event of default shall exist or shall occur immediately after giving effect on a pro forma basis to such transaction;
- immediately after giving effect on a pro forma basis to such transaction, the consolidated net worth of the survivor is at least equal to that of Big 5 Corp. immediately prior to such transaction; and
- immediately after giving effect on a pro forma basis to such transaction, the surviving entity could incur at least \$1 of additional indebtedness under the terms of the indenture.

Upon a change of control of Big 5 Corp., Big 5 Corp. will be required to offer to purchase all of the outstanding senior notes at a price in cash equal to 101% of the aggregate principal amount thereof plus accrued and unpaid interest and liquidated damages, if any, to the date of purchase.

The indenture also contains customary covenants that, among other things, restrict the ability of Big 5 Corp. to:

- incur additional indebtedness outside the ordinary course of business;
- issue preferred stock;
- pay dividends or make other distributions, depending on its level of indebtedness at the time of the proposed dividend or distribution, whether it is in default under its financing agreements, the amount of dividends or distributions made in the past and its net cash proceeds from stock sales during the year in question;
- make certain investments outside the ordinary course of business;
- create certain liens on the collateral securing the loans issued under the credit facility;
- sell certain assets outside the ordinary course of business;
- enter into certain transactions with affiliates; and
- effect certain mergers and consolidations.

Events of Default. The indenture governing the senior notes contains customary events of default, including defaults based on:

- nonpayment of principal, premium or interest when due, subject to specified grace periods;
- events of bankruptcy and insolvency of Big 5 Corp. or any of its subsidiaries;
- dissolution and liquidation;
- breach of specified covenants and agreements, subject to specified grace periods;

- material inaccuracy of representations and warranties;
- cross-defaults on other debt owed by Big 5 Corp. or any of its subsidiaries, with an aggregate principal exceeding \$15.0 million; and
- final judgments for payment of money against Big 5 Corp. or any of its subsidiaries not covered by insurance in an aggregate amount exceeding \$15.0 million, subject to certain grace periods.

Senior Discount Notes

In connection with our 1997 recapitalization, we issued \$48.2 million face amount of 13.45% senior discount notes due 2008, of which \$25.4 million face amount currently remains outstanding. According to the terms of the indenture under which the senior discount notes were issued, we have the right to redeem all, but not less than all, of our senior discount notes prior to November 30, 2002 at a redemption price equal to 113.45% of the accreted value of the senior discount notes, upon our receipt of cash from a public equity offering. We anticipate using a portion of our net proceeds from this offering to redeem all of the outstanding senior discount notes.

SHARES ELIGIBLE FOR FUTURE SALE

Sales of Restricted Securities

Prior to this offering, there has been no public market for our common stock, and we cannot predict the effect, if any, that market sales of shares of our common stock or the availability of shares of our common stock for sale will have on the market price of our common stock prevailing from time to time. Nevertheless, sales of substantial amounts of our common stock in the public market could adversely affect the market price of our common stock and could impair our future ability to raise capital through the sale of our equity securities.

Upon the completion of this offering, we will have shares of our common stock outstanding, assuming no exercise of the underwriters' over-allotment option and no exercise of the outstanding warrant. All of the shares sold in this offering will be freely tradable, except that any shares purchased by directors, officers or other affiliates may only be sold in compliance with the applicable limitations of Rule 144. The remaining shares of our common stock are "restricted securities" as defined under Rule 144. Restricted securities may be sold in the public market only if registered or if they qualify for an exemption from registration under Rules 144, 144(k) or 701 promulgated under the Securities Act, which rules are summarized below.

Subject to the provisions of Rules 144, 144(k) and 701 and a right of repurchase in favor of us applicable to 74,882 shares of our common stock that will expire on November 11, 2002, shares of our common stock will be available for sale in the public market upon the expiration of the 180-day lock-up period.

If our stockholders sell substantial amounts of our common stock in the public market following this offering, the prevailing market price of our common stock could decline. Furthermore, sales of substantial amounts of our common stock in the public market after contractual and legal restrictions lapse could adversely affect the prevailing market price of the common stock and our ability to raise equity capital in the future.

Rule 144

In general, under Rule 144 as currently in effect, beginning 90 days after the date of this prospectus, a person who has beneficially owned restricted shares for at least one year including the holding period of any prior owner except an affiliate would be entitled to sell within any three-month period a number of shares that does not exceed the greater of:

- 1% of the number of shares of common stock then outstanding; or
- the average weekly trading volume of the common stock during the four calendar weeks preceding the filing of a Form 144 with respect to such sale.

Sales under Rule 144 are also subject to manner of sale provisions and notice requirements and to the availability of current public information about us. Under Rule 144(k), a person who is not deemed to have been our affiliate at any time during the three months preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years including the holding period of any prior owner except an affiliate, is entitled to sell such shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144.

Rule 701

In general, under Rule 701 of the Securities Act, as currently in effect, any of our employees, consultants or advisors who purchase shares from us under a stock option plan or other written agreement can resell those shares 90 days after the effective date of this offering in reliance on Rule 144, but without complying with the holding period, public information, volume limitation or notice provisions of Rule 144, so long as they are not affiliates of ours. If they are an affiliate, they are eligible to resell the shares 90 days after the effective date of this offering in reliance on Rule 144 but without compliance with the

holding period requirement contained in Rule 144. These shares are subject to the lock-up agreements and will be available for sale in the open market beginning 180 days after the date of this prospectus.

Lock-Up Agreements

Executive officers, directors, vice presidents and certain other employees who own, in the aggregate, approximately % of our common stock prior to this offering have entered into lock-up agreements that provide that, except for shares of common stock to be sold in this offering and up to shares of common stock to be repurchased by us with a portion of the proceeds from this offering, these stockholders will not offer, sell, contract to sell, grant any option to purchase or otherwise dispose of our common stock or any securities exercisable for or convertible into our common stock owned by them for a period of 180 days after the date of this prospectus without the prior written consent of Credit Suisse First Boston Corporation. In addition, in 1992 and 1997, certain other employees who own, in the aggregate, approximately % of our common stock prior to this offering entered into management subscription agreements that contained lock-up restrictions that provide that these stockholders will not offer for public sale common stock owned by them for a period of 180 days after the date of this prospectus without the prior written consent of the managing underwriter in the public offering, in this case, Credit Suisse First Boston Corporation. Credit Suisse First Boston Corporation has advised us that it has no present intention to release any of the shares subject to these agreements prior to the expiration of the lock-up period. These agreements do not restrict the transfer of shares of common stock purchased in the open market following the date of this prospectus.

Registration Rights

Green Equity Investors, L.P. has the right to demand, on two occasions, that we file a registration statement under the Securities Act covering all or a portion of the 723,577 shares of our common stock held by it. Registration would result in the shares becoming freely tradable without restriction under the Securities Act. In addition, specified holders will have piggyback registration rights with respect to 1,444,800 shares of our common stock, including the shares held by Green Equity Investors, L.P., and 60,000 shares of our common stock underlying a warrant. If we propose to register any common stock under the Securities Act, other than pursuant to a registration of our common stock on Form S-4 or S-8, these holders may require us to include all or a portion of their securities in the registration. However, the managing underwriter, if any, of the offering pursuant to the registration has the right to limit the number of securities to be included by these holders.

The outstanding piggyback registration rights with respect to 1,379,139 shares of our common stock and all 60,000 shares of our common stock underlying a warrant have no expiration date. The piggyback registration rights with respect to 65,661 shares of our common stock will expire upon the earlier of the first anniversary of the consummation of this offering and the date of the effectiveness of any registration of our common stock under the Securities Act subsequent to this offering in which all of the holders of these shares are given the opportunity to register their shares.

We would bear all registration expenses incurred in connection with these registrations. The stockholders would pay all underwriting discounts, selling commissions and stock transfer taxes applicable to the sale of their securities.

Stock Options

Immediately after this offering, we intend to file a registration statement under the Securities Act covering shares of common stock reserved for issuance under the 2002 stock incentive plan. Shares registered under that registration statement will, upon the optionee's exercise and depending on vesting provisions and Rule 144 volume limitations applicable to our affiliates, be available for sale in the open market immediately after the lock-up agreements expire.

U.S. FEDERAL TAX CONSIDERATIONS FOR NON-U.S. HOLDERS

The following is a general discussion of certain U.S. federal income and estate tax consequences of the ownership and disposition of our common stock by a person that is not a “United States person” for U.S. federal income tax purposes (a “non-U.S. holder”). For this purpose, a “United States person” is a citizen or resident of the United States, a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof, an estate, the income of which is subject to U.S. federal income taxation regardless of its source, or a trust if (i) a U.S. court is able to exercise primary supervision over the trust’s administration and (ii) one or more United States persons have the authority to control all of the trust’s substantial decisions. The discussion does not consider specific facts and circumstances that may be relevant to a particular non-U.S. holder’s tax position. Special rules may apply to certain non-U.S. holders, such as dealers in securities, banks, insurance companies, tax-exempt organizations, persons holding their shares as part of a “straddle,” “hedge,” or “conversion transaction,” persons who acquire shares as compensation, “controlled foreign corporations,” “passive foreign investment companies,” “foreign personal holding companies,” and corporations that accumulate earnings to avoid U.S. federal income tax, that are subject to special treatment under the Internal Revenue Code of 1986, as amended. This discussion is limited to beneficial owners of the common stock who hold the common stock as capital assets. It does not address any aspect of state, local, or foreign law, persons who hold common stock through a partnership or other pass-through entity, or persons who are former citizens or long-term residents of the United States.

Accordingly, each non-U.S. holder is urged to consult its own tax advisor with respect to the United States tax consequences of the ownership and disposition of common stock, as well as any tax consequences that may arise under the laws of any state, municipality, foreign country or other taxing jurisdiction.

Dividends

Dividends paid to a non-U.S. holder of our common stock ordinarily will be subject to withholding of U.S. federal income tax at a 30% rate, or at a lower rate under an applicable income tax treaty that provides for a reduced rate of withholding. To claim the benefit of a lower treaty rate, a non-U.S. holder must properly file with the payor an IRS Form W-8BEN, or successor form, or, in the case of payments made outside the United States with respect to an offshore account, comply with certain documentary evidence procedures, directly, or under certain circumstances, through an intermediary. If, however, the dividends are effectively connected with the conduct by the non-U.S. holder of a trade or business within the United States and, where a tax treaty applies, are attributable to a United States permanent establishment of the non-U.S. holder, then the dividends will be exempt from the withholding tax described above, provided that an IRS Form W-8ECI, or successor form, is furnished to the payor. Such dividends will instead be taxed on a net basis at applicable graduated individual or corporate rates. Effectively connected dividends received by a foreign corporation may, under certain circumstances, be subject as well to a “branch profits tax” at a rate of 30% or a lower applicable treaty rate. A non-U.S. holder who furnished the payor with an IRS Form W-8ECI or successor form must also provide a United States taxpayer identification number.

Gain on Disposition of Common Stock

A non-U.S. holder generally will not be subject to U.S. federal income tax in respect of a gain realized on a disposition of our common stock, provided that (a) the gain is not effectively connected with a trade or business conducted by the non-U.S. holder in the United States, (b) in the case of a non-U.S. holder who is an individual, such holder is present in the United States for less than 183 days in the taxable year of the sale and other conditions are met, and (c) we are not nor have been a “United States real property holding corporation” for United States federal income tax purposes (a “USRPHC”). We believe we are not currently, and are not likely to become a USRPHC. Even if we were to become a USRPHC, gain on the sale or other disposition of common stock by a non-U.S. holder generally would not be subject to U.S. federal income tax provided that (i) the common stock was “regularly traded” on

an established securities market and (ii) such non-U.S. holder did not actually or constructively own more than 5% of the common stock at any time during the shorter of the five-year period preceding the disposition or such non-U.S. holder's holding period.

If a non-U.S. holder is engaged in the conduct of a trade or business in the United States, gain on the disposition of our common stock that is effectively connected with the conduct of such trade or business and, where an income tax treaty applies, is attributable to a United States permanent establishment, will be taxed on a net basis at applicable graduated individual or corporate rates. Effectively connected gain of a foreign corporation may, under certain circumstances, be subject as well to a branch profits tax at a rate of 30% or a lower applicable treaty rate.

Federal Estate Taxes

Our common stock owned or treated as being owned by a non-U.S. holder at the time of death will be included in that holder's gross estate for U.S. federal estate tax purposes, unless an applicable estate tax treaty provides otherwise. The U.S. federal estate tax was recently repealed; however, the repeal does not take effect until 2010. In addition, the legislation repealing the estate tax expires in 2011, and thus the estate tax will be reinstated at that time unless future legislation extends the repeal.

U.S. Information Reporting Requirements and Backup Withholding Tax

U.S. information reporting on IRS Form 1099 and backup withholding tax will not apply to dividends paid on our common stock to a non-U.S. holder, provided that non-U.S. holder provides an IRS Form W-8BEN (or satisfies certain certification documentary evidence requirements for establishing that it is a non-United States person under U.S. Treasury regulations) or otherwise establishes an exemption. Distributions on our common stock will, however, be reported to the Internal Revenue Service ("IRS") and to the non-U.S. holder on IRS Form 1042-S.

Information reporting and backup withholding also generally will not apply to a payment of the proceeds of a sale of our common stock effected outside the United States by a foreign office of a foreign broker. However, information reporting requirements (but not backup withholding) will apply to a payment of the proceeds of a sale of our common stock effected outside the United States by a foreign office of a broker if the broker (i) is a United States person, (ii) derives 50% or more of its gross income for certain periods from the conduct of a trade or business in the United States, (iii) is a "controlled foreign corporation" as to the United States, or (iv) is a foreign partnership that, at any time during its taxable year, is 50% or more (by income or capital interest) owned by United States persons or is engaged in the conduct of a U.S. trade or business, unless in any such case the broker has documentary evidence in its records that the holder is a non-U.S. holder and certain conditions are met, or the holder otherwise establishes an exemption. Payment by a United States office of a broker of the proceeds of a sale of our common stock will be subject to both backup withholding and information reporting unless the holder certifies its non-U.S. status under penalties of perjury or otherwise establishes an exemption. Pursuant to recent tax legislation the rate of backup withholding tax is currently 30% and will be reduced to 29% on January 1, 2004 and 28% on January 1, 2006.

Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against that holder's U.S. federal income tax liability provided the required information is furnished to the IRS.

THE SELLING STOCKHOLDERS

The following are the stockholders for whose accounts the common stock is being offered; the amount of common stock owned by such stockholders prior to this offering; the amount of common stock to be offered for the stockholder's account; and the amount to be owned by such stockholder following completion of the offering. Other than as disclosed below, no selling stockholder holds or has held during the past three years any position, office, or other material relationship with the company.

Name of selling stockholder	Relationship with company	# of shares owned prior to offering	# of shares offered	# of shares after sale	% of shares owned after sale
Robert W. Miller(1)	Chairman Emeritus of the Board	250,809			
Steven G. Miller(2)	Chairman of the Board, President & Chief Executive Officer	200,000			
Michael D. Miller(3)	Director	100,000			
Charles P. Kirk	Senior Vice President & Chief Financial Officer	48,000			
Gary S. Meade	Senior Vice President, General Counsel & Secretary	11,000			
Richard A. Johnson	Senior Vice President, Store Operations	48,000			
Thomas J. Schlauch	Senior Vice President, Buying	40,000			
Jeffrey L. Fraley	Senior Vice President, Human Resources	16,000			

(1) Includes 100,809 shares of common stock held by Robert W. Miller and Florence H. Miller, Trustees of the Robert W. and Florence H. Miller Family Trust dated January 11, 1991 and 150,000 shares of common stock held by Robert W. Miller and Florence H. Miller Family Partners L.P. Mr. Robert W. Miller currently serves as Chairman of our board of directors and, upon the consummation of this offering, will serve as Chairman Emeritus of our board of directors.

(2) Includes 200,000 shares of common stock held by Steven G. Miller and Jacquelyne G. Miller, Trustees of the Steven G. Miller and Jacquelyne G. Miller Trust dated September 13, 1990. Mr. Steven G. Miller currently serves as President and Chief Executive Officer and, upon the consummation of this offering, will also serve as Chairman of our board of directors.

(3) Includes 100,000 shares of common stock held by Michael D. Miller, Trustee of the Miller Living Trust, dated December 11, 1997.

UNDERWRITING

Under the terms and subject to the conditions contained in an underwriting agreement dated _____, 2002, we and the selling stockholders have agreed to sell to the underwriters named below, for whom Credit Suisse First Boston Corporation, U.S. Bancorp Piper Jaffray Inc., Jefferies & Company, Inc. and Stephens Inc. are acting as representatives, the following respective numbers of shares of common stock:

Underwriter	Number of Shares
Credit Suisse First Boston Corporation	
U.S. Bancorp Piper Jaffray Inc.	
Jefferies & Company, Inc.	
Stephens Inc.	
Total	

The underwriting agreement provides that the underwriters are obligated to purchase all the shares of common stock in the offering if any are purchased, other than those shares covered by the over-allotment option described below. The underwriting agreement also provides that if an underwriter defaults, the purchase commitments of non-defaulting underwriters may be increased or the offering may be terminated.

We and the selling stockholders have granted to the underwriters a 30-day option to purchase on a pro rata basis up to _____ additional shares from us and an aggregate of _____ additional outstanding shares from the selling stockholders at the initial public offering price less the underwriting discounts and commissions. The option may be exercised only to cover any over-allotments of common stock.

The underwriters propose to offer the shares of common stock initially at the public offering price on the cover page of this prospectus and to selling group members at that price less a selling concession of \$ _____ per share. The underwriters and selling group members may allow a discount of \$ _____ per share on sales to other broker/dealers. After the initial public offering, the representatives may change the public offering price and concession and discount to broker/dealers.

The following table summarizes the compensation and estimated expenses we and the selling stockholders will pay:

	Per Share		Total	
	Without Over-allotment	With Over-allotment	Without Over-allotment	With Over-allotment
Underwriting discounts and commissions paid by us	\$	\$	\$	\$
Expenses payable by us	\$	\$	\$	\$
Underwriting discounts and commissions paid by selling stockholders	\$	\$	\$	\$
Expenses payable by the selling stockholders	\$	\$	\$	\$

The representatives have informed us that they do not expect discretionary sales to exceed 5% of the shares of common stock being offered.

We have agreed that we will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, or file with the Securities and Exchange Commission a registration statement under the Securities Act relating to, any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, or publicly disclose the intention to make any offer, sale, pledge, disposition or filing, without the prior written consent of Credit Suisse First Boston Corporation for a period of 180 days after the date of this prospectus.

Executive officers, directors, vice presidents and certain other employees who own, in the aggregate, approximately % of our common stock prior to this offering have agreed that, except for shares of common stock to be sold in this offering and up to shares of common stock to be repurchased by us with a portion of the proceeds from this offering, they will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, enter into a transaction that would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of our common stock, whether any of these transactions are to be settled by delivery of our common stock or other securities, in cash or otherwise, or publicly disclose the intention to make any offer, sale, pledge or disposition, or to enter into any transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of Credit Suisse First Boston Corporation for a period of 180 days after the date of this prospectus. Certain other employees who own, in the aggregate, approximately % of our common stock prior to this offering have agreed that they will not offer for public sale common stock owned by them without the prior written consent of the managing underwriter in our public offering, in this case Credit Suisse First Boston Corporation, for a period of 180 days after the date of this prospectus.

We and the selling stockholders have agreed to indemnify the underwriters against liabilities under the Securities Act, or contribute to payments that the underwriters may be required to make in that respect.

We will apply to list the shares of common stock on The Nasdaq Stock Market's National Market under the symbol " ".

Prior to this offering, there has been no public trading market for our common stock. The initial public offering price for our common stock will be determined by negotiation between us, the selling stockholders and the representatives. The principal factors to be considered in determining the initial public offering price include:

- the information included in this prospectus and otherwise available to the representatives,
- the history and the prospects of the industry in which we compete,
- the ability of our management,
- our past and present operations,
- our prospects for future earnings,
- the recent market prices of and demand for publicly traded common stock of generally comparable companies,
- market conditions for initial public offerings, and
- the general condition of the securities markets at the time of this offering.

We cannot assure you that the initial public offering price will correspond to the price at which our common stock will trade in the public market subsequent to the offering or that an active trading market for our common stock will develop and continue after the offering.

In connection with the offering, the underwriters may engage in stabilizing transactions, over-allotment transactions, syndicate covering transactions, penalty bids and passive market making in accordance with Regulation M under the Securities Exchange Act.

- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.
- Over-allotment involves sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that they may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. The underwriters may close out any short position by either exercising their over-allotment option and/or purchasing shares in the open market.
- Syndicate covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. If the underwriters sell more shares than could be covered by the over-allotment option, a naked short position, the position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.
- Penalty bids permit the representatives to reclaim a selling concession from a syndicate member when the common stock originally sold by the syndicate member is purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.
- In passive market making, market makers in the common stock who are underwriters or prospective underwriters may, subject to limitations, make bids for or purchases of our common stock until the time, if any, at which a stabilizing bid is made.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of our common stock. As a result the price of our common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on The Nasdaq Stock Market's National Market or otherwise and, if commenced, may be discontinued at any time.

A prospectus in electronic format may be made available on the web sites maintained by one or more of the underwriters, or selling group members, if any, participating in this offering. The representatives may agree to allocate a number of shares to underwriters for sale to their online brokerage account holders. Internet distributions will be allocated by the underwriters that will make internet distributions on the same basis as other allocations.

NOTICE TO CANADIAN RESIDENTS

Resale Restrictions

The distribution of the common stock in Canada is being made only on a private placement basis exempt from the requirement that we and the selling stockholders prepare and file a prospectus with the securities regulatory authorities in each province where trades of common stock are made. Any resale of the common stock in Canada must be made under applicable securities laws which will vary depending on the relevant jurisdiction, and which may require resales to be made under available statutory exemptions or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Purchasers are advised to seek legal advice prior to any resale of the common stock.

Representations of Purchasers

By purchasing common stock in Canada and accepting a purchase confirmation a purchaser is representing to us, the selling stockholders and the dealer from whom the purchase confirmation is received that:

- the purchaser is entitled under applicable provincial securities laws to purchase the common stock without the benefit of a prospectus qualified under those securities laws,
- where required by law, that the purchaser is purchasing as principal and not as agent, and
- the purchaser has reviewed the text above under “Resale Restrictions”.

Rights of Action — Ontario Purchasers Only

Under Ontario securities legislation, a purchaser who purchases a security offered by this prospectus during the period of distribution will have a statutory right of action for damages, or while still the owner of the shares, for rescission against us and the selling stockholders in the event that this prospectus contains a misrepresentation. A purchaser will be deemed to have relied on the misrepresentation. The right of action for damages is exercisable not later than the earlier of 180 days from the date the purchaser first had knowledge of the facts giving rise to the cause of action and three years from the date on which payment is made for the shares. The right of action for rescission is exercisable not later than 180 days from the date on which payment is made for the shares. If a purchaser elects to exercise the right of action for rescission, the purchaser will have no right of action for damages against us or the selling stockholders. In no case will the amount recoverable in any action exceed the price at which the shares were offered to the purchaser and if the purchaser is shown to have purchased the securities with knowledge of the misrepresentation, we and the selling stockholders will have no liability. In the case of an action for damages, we and the selling stockholders will not be liable for all or any portion of the damages that are proven to not represent the depreciation in value of the shares as a result of the misrepresentation relied upon. These rights are in addition to, and without derogation from, any other rights or remedies available at law to an Ontario purchaser. The foregoing is a summary of the rights available to an Ontario purchaser. Ontario purchasers should refer to the complete text of the relevant statutory provisions.

Enforcement of Legal Rights

All of the issuer’s directors and officers, as well as the experts named herein and the selling stockholders, may be located outside of Canada and, as a result, it may not be possible for Canadian purchasers to effect service of process within Canada upon the issuer or such persons. All or a substantial portion of the assets of the issuer and such persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against the issuer or such persons in Canada or to enforce a judgment obtained in Canadian courts against such issuer or persons outside of Canada.

Taxation and Eligibility for Investment

Canadian purchasers of common stock should consult their own legal and tax advisors with respect to the tax consequences of an investment in the common stock in their particular circumstances and about the eligibility of the common stock for investment by the purchaser under relevant Canadian legislation.

LEGAL MATTERS

The validity of the common stock offered hereby will be passed upon for us by Irell & Manella LLP, Los Angeles, California. Selected legal matters in connection with this offering will be passed upon for the underwriters by Skadden, Arps, Slate, Meagher & Flom LLP, Los Angeles, California.

EXPERTS

The consolidated financial statements of Big 5 Sporting Goods Corporation and subsidiary as of December 31, 2000 and December 30, 2001 and for each of the fiscal years ended January 2, 2000, December 31, 2000 and December 30, 2001 have been included herein and in the registration statement in reliance on the report of KPMG LLP, independent certified public accountants, appearing elsewhere herein and upon the authority of said firm as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the Securities and Exchange Commission a registration statement on Form S-1 with respect to the common stock offered by this prospectus. This prospectus, which constitutes a part of the registration statement, does not contain all of the information set forth in the registration statement or the exhibits and schedules, which are part of the registration statement. For further information with respect to us and our common stock, we refer you to the registration statement and exhibits and schedules filed as part of the registration statement. Statements contained in this prospectus concerning the contents of any contract or any other documents are not necessarily complete. If a contract or document has been filed as an exhibit to the registration statement, we refer you to the copy of the contract or document that has been filed. Each statement in this prospectus relating to a contract or document filed as an exhibit is qualified in all respects by the filed exhibit. Any document we file may be read and copied at the Commission's public reference rooms in Washington, D.C., New York, New York and Chicago, Illinois. Please call the Commission at 1-800-SEC-0330 for further information about the public reference rooms. Our filings with the Commission are also available to the public from the Commission's Web site at <http://www.sec.gov>.

Upon completion of this offering, we will become subject to the information and periodic reporting requirements of the Securities Exchange Act, and, accordingly, will file periodic reports, proxy statements and other information with the Commission. Such periodic reports, proxy statements and other information will be available for inspection and copying at the Commission's public reference rooms, and the Web site of the Commission referred to above.

BIG 5 SPORTING GOODS CORPORATION AND SUBSIDIARY

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INDEPENDENT AUDITORS' REPORT

The Board of Directors

Big 5 Sporting Goods Corporation:

We have audited the consolidated financial statements of Big 5 Sporting Goods Corporation and subsidiary as listed in the accompanying index. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Big 5 Sporting Goods Corporation and subsidiary as of December 31, 2000 and December 30, 2001 and the results of their operations and their cash flows for each of the fiscal years ended January 2, 2000, December 31, 2000 and December 30, 2001 in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Los Angeles, California

March 1, 2002

BIG 5 SPORTING GOODS CORPORATION AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(dollars in thousands)

	December 31, 2000	December 30, 2001
ASSETS		
Current assets:		
Cash	\$ 3,753	\$ 7,865
Trade and other receivables, net of allowance for doubtful accounts of \$607 and \$671, respectively	7,429	8,229
Merchandise inventories	168,981	163,680
Prepaid expenses	1,146	1,469
Total current assets	181,309	181,243
Property and equipment:		
Land	186	186
Buildings and improvements	27,264	31,903
Furniture and equipment	50,089	51,007
Less accumulated depreciation and amortization	(37,577)	(40,446)
Net property and equipment	39,962	42,650
Deferred income taxes, net	13,159	12,353
Leasehold interest, net of accumulated amortization of \$19,387 and \$21,134, respectively	9,347	7,600
Other assets, at cost, less accumulated amortization of \$4,139 and \$4,871, respectively	4,621	4,249
Goodwill, less accumulated amortization of \$1,865 and \$2,112, respectively	4,680	4,433
Total assets	\$253,078	\$252,528
LIABILITIES, REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	\$ 64,401	\$ 62,308
Accrued expenses	47,481	52,643
Total current liabilities	111,882	114,951
Deferred rent	7,533	7,791
Long-term debt	172,098	153,351
Total liabilities	291,513	276,093
Redeemable Series A 13.45% Senior Exchangeable Preferred Stock, \$0.01 par value. Authorized 350,000 shares; issued and outstanding 350,000 shares at December 31, 2000 and December 30, 2001	51,721	58,911
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock, \$0.01 par value. Authorized 1,150,000 shares; no shares issued and outstanding at December 31, 2000 and December 30, 2001	—	—
Common stock, \$0.01 par value. Authorized 5,000,000 shares; issued and outstanding 1,926,500 shares and 1,926,200 shares at December 31, 2000 and December 30, 2001, respectively	19	19
Additional paid-in capital	7,196	7,195
Accumulated deficit	(97,371)	(89,690)
Net stockholders' deficit	(90,156)	(82,476)
Total liabilities, redeemable preferred stock and stockholders' deficit	\$253,078	\$252,528

See accompanying notes to consolidated financial statements.



BIG 5 SPORTING GOODS CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

(dollars in thousands, except per share data)

	Fiscal Year Ended		
	January 2, 2000	December 31, 2000	December 30, 2001
Net sales	\$ 514,324	\$ 571,476	\$ 622,481
Cost of goods sold, buying and occupancy	341,852	377,040	407,679
Gross profit	172,472	194,436	214,802
Operating expenses:			
Selling and administrative	131,222	144,703	160,044
Litigation settlement	—	—	2,515
Depreciation and amortization	9,479	9,340	10,031
Total operating expenses	140,701	154,043	172,590
Operating income	31,771	40,393	42,212
Interest expense	21,574	22,008	19,629
Income before income taxes and extraordinary gain (loss)	10,197	18,385	22,583
Income taxes	4,000	7,324	9,218
Income before extraordinary gain (loss)	6,197	11,061	13,365
Extraordinary gain (loss) from early extinguishment of debt, net of income taxes	(372)	87	1,600
Net income	\$ 5,825	\$ 11,148	\$ 14,965
Net income per common share excluding extraordinary item:			
Basic	\$ 0.30	\$ 2.42	\$ 3.16
Diluted	\$ 0.29	\$ 2.35	\$ 3.06
Net income per common share:			
Basic	\$ 0.11	\$ 2.46	\$ 3.99
Diluted	\$ 0.10	\$ 2.39	\$ 3.87
Weighted average shares of common stock outstanding:			
Basic	1,927,374	1,926,870	1,926,474
Diluted	1,987,374	1,986,870	1,986,474

See accompanying notes to consolidated financial statements.

BIG 5 SPORTING GOODS CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT

**Fiscal Years ended January 2, 2000, December 31, 2000
and December 30, 2001**
(dollars in thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Net Stockholders' Deficit
	Shares	Amount			
Balance at January 3, 1999	1,927,700	\$ 19	\$7,202	\$(102,323)	\$(95,102)
Redeemable preferred stock dividend	—	—	—	(5,621)	(5,621)
Repurchase of common stock	(800)	—	(4)	—	(4)
Net income	—	—	—	5,825	5,825
Balance at January 2, 2000	1,926,900	19	7,198	(102,119)	(94,902)
Redeemable preferred stock dividend	—	—	—	(6,400)	(6,400)
Repurchase of common stock	(400)	—	(2)	—	(2)
Net income	—	—	—	11,148	11,148
Balance at December 31, 2000	1,926,500	19	7,196	(97,371)	(90,156)
Redeemable preferred stock dividend	—	—	—	(7,284)	(7,284)
Repurchase of common stock	(300)	—	(1)	—	(1)
Net income	—	—	—	14,965	14,965
Balance at December 30, 2001	1,926,200	\$ 19	\$7,195	\$ (89,690)	\$(82,476)

See accompanying notes to consolidated financial statements.

BIG 5 SPORTING GOODS CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

	Fiscal Year Ended		
	January 2, 2000	December 31, 2000	December 30, 2001
Cash flows from operating activities:			
Net income	\$ 5,825	\$ 11,148	\$ 14,965
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	9,479	9,340	10,031
Amortization of deferred finance charges and discounts	4,293	4,684	3,932
Deferred tax provision (benefit)	(1,567)	(5,492)	806
Loss on disposal of equipment and leasehold interest	133	278	43
Extraordinary (gain) loss from early extinguishment of debt	621	(148)	(2,662)
Changes in operating assets and liabilities:			
Merchandise inventories	(7,987)	(13,698)	5,301
Trade and other accounts receivable, net	(584)	(498)	(800)
Prepaid expenses and other assets	218	182	(959)
Accounts payable	(2,562)	6,538	(4,204)
Accrued expenses	7,730	7,523	5,068
Net cash provided by operating activities	<u>15,599</u>	<u>19,857</u>	<u>31,521</u>
Cash flows from investing activities — purchases of property and equipment	<u>(13,075)</u>	<u>(11,602)</u>	<u>(10,510)</u>
Cash flows from financing activities:			
Net borrowings (repayments) under revolving credit facilities and other	\$ 16,539	\$ (2,252)	\$(10,210)
Repayment of Notes	(20,423)	(7,339)	(6,688)
Repurchase of common stock	(4)	(2)	(1)
Net cash used in financing activities	<u>(3,888)</u>	<u>(9,593)</u>	<u>(16,899)</u>
Net increase (decrease) in cash	(1,364)	(1,338)	4,112
Cash at beginning of year	6,455	5,091	3,753
Cash at end of year	<u>\$ 5,091</u>	<u>\$ 3,753</u>	<u>\$ 7,865</u>
Supplemental disclosures of non-cash financing activities:			
Accreted dividends on preferred stock	<u>\$ 5,621</u>	<u>\$ 6,400</u>	<u>\$ 7,284</u>
Supplemental disclosures of cash flow information:			
Interest paid	<u>\$ 16,935</u>	<u>\$ 17,013</u>	<u>\$ 14,690</u>
Income taxes paid	<u>1,664</u>	<u>8,143</u>	<u>13,820</u>

See accompanying notes to consolidated financial statements.

BIG 5 SPORTING GOODS CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2000 and December 30, 2001
(dollars in thousands, except per share data)

(1) Basis of Presentation and Description of Business

The accompanying consolidated financial statements as of December 31, 2000 and December 30, 2001 and for the years ended January 2, 2000, December 31, 2000 and December 30, 2001 represent the financial position and results of operations of Big 5 Sporting Goods Corporation and its wholly owned subsidiary, Big 5 Corp. ("Big 5 Corp."). The Company operates 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 260 stores at December 30, 2001 in California, Washington, Arizona, Oregon, Texas, New Mexico, Nevada, Utah, Idaho and Colorado.

(2) Summary of Significant Accounting Policies

Consolidation

The consolidated financial statements include Big 5 Sporting Goods Corporation and Big 5 Corp. All significant intercompany balances and transactions have been eliminated in consolidation.

Reporting Period

The Company reports on a 52-53 week fiscal year ending on the Sunday nearest December 31. Information presented for the years ended January 2, 2000, December 31, 2000 and December 30, 2001 represent 52-week fiscal years.

Revenue Recognition

The Company's revenue is received from retail sales of merchandise through the Company's stores. Revenue is recognized when merchandise is received by the customer and is shown net of returns.

Trade and Other Receivables

Trade accounts receivable consist primarily of third party credit card receivables. Other receivables consist principally of net amounts due from vendors for certain co-op advertising. Accounts receivable have not historically resulted in any material credit losses. An allowance for doubtful accounts is provided when accounts are determined to be uncollectible.

Merchandise Inventories

The Company values merchandise inventories using the lower of weighted average cost (which approximates the first-in, first-out cost) or market method. Average cost includes the direct purchase price of merchandise inventory and certain overhead costs associated with the Company's distribution center.

Property and Equipment

Property and equipment are stated at cost and depreciated over the estimated useful lives or lease terms, using the straight-line method.

The estimated useful lives are 40 years for buildings, 7 to 10 years for fixtures and equipment and the shorter of the lease term or 10 years for leasehold improvements. Maintenance and repairs are charged to expense as incurred.

BIG 5 SPORTING GOODS CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Leasehold Interest

Upon acquisition of the Company in 1992, an asset was recognized for the net fair value of favorable operating lease agreements. The leasehold interest asset is being amortized on a straight-line basis over 13.5 years. The unamortized balance attributable to leases terminated since the acquisition has been reflected as a component of the gain or loss upon disposition of the underlying properties.

Goodwill

Goodwill, which represents the excess of purchase price over fair value of net assets acquired, is amortized on a straight-line basis over periods ranging from 15 to 30 years. The Company assesses the recoverability of goodwill by determining whether the carrying value can be recovered through undiscounted future operating cash flows from the assets. The impairment, if any, is measured based on projected discounted future operating cash flows using a discount rate equal to the Company's average cost of funds. Recoverability of goodwill will be impacted if estimated future operating cash flows are not achieved.

Other Assets

Other assets consist principally of deferred financing costs and are amortized straight-line over the terms of the respective debt.

Self-Insurance Reserves

The Company maintains self-insurance programs for workers' compensation and general liability risks. The Company is self-insured up to specified per-occurrence limits and maintains insurance coverage for losses in excess of specified amounts. Estimated costs under these programs, including incurred but not reported claims, are recorded as expenses based upon actuarially determined historical experience and trends of paid and incurred claims. Self insurance reserves amount to \$4,628 and \$4,987 at December 31, 2000 and December 30, 2001, respectively, and are included in accrued liabilities.

Preopening Expenses

New store preopening expenses are charged against operations as incurred.

Advertising Expenses

The Company expenses advertising costs the first time the advertising takes place. Advertising expenses amounted to \$30,613 for the fiscal year ended January 2, 2000, \$33,498 for the fiscal year ended December 31, 2000 and \$35,981 for the fiscal year ended December 30, 2001. Advertising expense is included in selling and administrative expenses in the accompanying statements of operations. There are no amounts related to advertising reported as assets in the balance sheets presented.

Income Taxes

The Company accounts for income taxes under the asset and liability method whereby deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates 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 established if deemed necessary.

BIG 5 SPORTING GOODS CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Earnings Per Share

Basic earnings per share is calculated by dividing net income available to common stockholders by the weighted average common shares outstanding during the period. Diluted earnings per share is calculated by using the weighted average of common shares outstanding adjusted to include the potentially dilutive effect of an outstanding warrant.

Use of Estimates

Management of the Company 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 financial statements and reported amounts of revenues and expenses during the reporting period to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from these estimates.

Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed of

The Company reviews its long-lived assets and certain identifiable intangibles 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 an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell.

Stock Compensation

The Company has adopted Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123), and has elected to measure compensation costs under Accounting Principle Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and comply with the pro forma disclosure requirements of SFAS No. 123, except for options and warrants granted to nonemployees, which are recorded in the financial statements under SFAS No. 123.

Impact of New Accounting Pronouncements

In June 2001, the FASB issued SFAS No. 141, *Business Combinations* and SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations. SFAS No. 141 specifies criteria that intangible assets acquired in a business combination must meet to be recognized and reported separately from goodwill. SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121 and subsequently, SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, after its adoption.

SFAS No. 142 requires the Company to evaluate its existing intangible assets and goodwill that were acquired in purchase business combinations, and to make any necessary reclassifications in order to conform with the new classification criteria in SFAS No. 141 for recognition separate from goodwill. The Company is required to reassess the useful lives and residual values of all intangible assets acquired and make any necessary amortization period adjustments by the end of the first interim period after adoption. If an intangible asset is identified as having an indefinite useful life, the Company is required to test the

BIG 5 SPORTING GOODS CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

intangible asset for impairment in accordance with the provisions of SFAS No. 142 within the first interim period. Impairment is measured as the excess of carrying value over the fair value of an intangible asset with an indefinite life. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim period.

In connection with SFAS No. 142's transitional goodwill impairment evaluation, the statement requires the Company to perform an assessment of whether there is an indication that goodwill is impaired as of the date of adoption. To accomplish this, the Company must identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of December 31, 2001. The Company will then have up to six months from December 31, 2001 to determine the fair value of each reporting unit and compare it to the carrying amount of the reporting unit. To the extent the carrying amount of a reporting unit exceeds the fair value of the reporting unit, an indication exists that the reporting unit goodwill may be impaired and the Company must perform the second step of the transitional impairment test. The second step is required to be completed as soon as possible, but no later than the end of the fiscal year of adoption. In the second step, the Company must compare the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill, both of which would be measured as of the date of adoption. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit to all of the assets (recognized and unrecognized) and liabilities of the reporting unit in a manner similar to a purchase price allocation, in accordance with SFAS No. 141. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in the Company's statement of income.

As of the date of adoption of SFAS No. 142, the Company had net unamortized goodwill in the amount of \$4,433 and unamortized identifiable intangible assets in the amount of \$7,600, all of which will be subject to the transition provisions of SFAS No. 142. Amortization expense related to goodwill was \$247 for each of the years ended December 30, 2001, December 31, 2000 and January 2, 2000, respectively. Because of the extensive effort needed to comply with adopting SFAS No. 141 and No. 142, it is not practicable to reasonably estimate the impact of adopting the statements on the Company's financial statements at the date of this report, including whether it will be required to recognize any transitional impairment losses as the cumulative effect of a change in accounting principle.

In August, 2001, the FASB issued SFAS No. 144. SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement requires that long-lived assets be 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 an asset to future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. SFAS No. 144 requires companies to separately report discontinued operations and extends that reporting to a component of an entity that either has been disposed of (by sale, abandonment or in a distribution to owners) or is classified as held for sale. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. The Company was required to adopt SFAS No. 144 on December 31, 2001. The adoption of SFAS No. 144 is not expected to have a material impact on the Company's financial condition or results of operations.

BIG 5 SPORTING GOODS CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Long-Term Debt

Long-term debt consists of the following:

	December 31, 2000	December 30, 2001
Revolving credit facility	\$ 37,321	\$ 25,000
10.875% Senior Notes, net of unamortized discount, \$104.1 million face amount due in 2007	103,768	103,806
13.45% Senior Discount Notes, net of unamortized discount, \$28.2 million face amount due in 2008	31,009	24,545
Total long-term debt	\$172,098	\$153,351

In 1997, the Company issued \$131,000 face amount, 10.875% Senior Notes due 2007 (Senior Notes), less a discount of \$591 based on an imputed interest rate of 10.95%. The notes require semiannual interest payments on each May 15 and November 15, commencing on May 15, 1998. The Company has no mandatory payments of principal on the Senior Notes prior to their maturity in 2007. The notes may be redeemed in whole or in part, at the option of the Company, at any time on or after November 15, 2002, at the redemption prices set forth below with respect to the indicated redemption date, together with any accrued and unpaid interest to such redemption date. The Senior Notes are unsecured obligations that rank senior in right of payment to all existing and future indebtedness that is subordinated to the Senior Notes and rank *pari passu* in right of payment with all current and future unsecured indebtedness, subject to restrictions due to the securitization of certain assets. During the year ended January 2, 2000, the Company repurchased \$19,100 face value of Senior Notes for a repurchase price of \$19,060. The Company repurchased an additional \$7,750 face value of Senior Notes during the year ended December 31, 2000 for a repurchase price of \$7,339. On February 14, 2002, the Company repurchased an additional \$500 face value of Senior Notes for a repurchase price of \$499.

If redeemed during the 12-month period beginning November 15, the redemption prices of the Senior Notes before accrued and unpaid interest are as follows:

Year	Percentage
2002	105.475%
2003	103.650
2004	101.825
2005 and thereafter	100.000

In 1997, the Company issued \$48,200 face amount, 13.45% Senior Discount Notes (Senior Discount Notes) due 2008, less a discount of \$24,000 based on an imputed interest rate of 13.85%. The Senior Discount Notes were issued with a warrant (see Note 14) for aggregate consideration of \$24,500. The Senior Discount Notes are unsecured and cash interest will not accrue on the Senior Discount Notes prior to November 30, 2002. Thereafter, cash interest on the Senior Discount Notes will accrue at 13.45% per annum and will be payable semiannually in arrears on each May 31 and November 30, commencing in May 2003. The Company has no mandatory payments of principal on the Senior Discount Notes prior to their maturity in 2008. The Company repurchased \$2,500 face value of Senior Discount Notes during the year ended January 2, 2000 and \$12,500 face value of Senior Discount Notes during the year ended December 30, 2001 for a repurchase price of \$1,363 and \$6,688, respectively. On February 1, 2002, the Company repurchased an additional \$2,825 face value of Senior Discount Notes for a repurchase price of \$2,536.

The Senior Discount Notes may be redeemed, in their entirety only, at the option of the Company upon the Company's receipt of proceeds from an initial public offering of its common stock at any time

BIG 5 SPORTING GOODS CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

prior to November 30, 2002 at a redemption price equal to 113.45% of their accreted value plus accrued but unpaid interest.

The Senior Discount Notes may also be redeemed at the option of the Company in whole or in part on or after November 30, 2002 at the redemption prices set forth below with respect to the indicated redemption date together with any accrued and unpaid interest to such redemption date. The Senior Discount Notes indenture contains covenants that, among other things, limit the ability of the Company to enter into certain mergers or consolidations or incur certain liens and to incur additional indebtedness, pay dividends and make certain other restricted payments and engage in certain transactions with affiliates. Under certain circumstances, including a change in control (as defined in the Senior Discount Notes indenture), the Company may be required to make an offer to purchase the Senior Discount Notes at prices specified in the Senior Discount Note indenture. The Senior Discount Notes indenture contains certain customary events of default, which include the failure to pay interest and principal, the failure to comply with certain covenants in the Senior Discount Notes or certain events occurring under bankruptcy laws.

If redeemed during the 12-month period beginning November 30, the redemption prices of the Senior Discount Notes before accrued and unpaid interest are as follows:

Year	Percentage
2002	110.000%
2003	106.670
2004	103.330
2005 and thereafter	100.000

The Company has a five-year, non-amortizing \$125,000 revolving credit facility (the CIT Credit Facility). The CIT 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 December 31, 2002. The Company may terminate the CIT Credit Facility by giving at least 30 days prior written notice, provided that if the Company terminates prior to December 31, 2002, it must pay an early termination fee. Unless it is terminated, the CIT Credit Facility will continue on an annual basis from anniversary date to anniversary date beginning in January 2003. The CIT Credit Facility bears interest at various rates based on the Company's performance, with a floor of LIBOR plus 1.50% or the Chase Manhattan prime lending rate and a ceiling of LIBOR plus 2.50% or the Chase Manhattan prime lending rate plus 0.75% and is secured by trade accounts receivable, merchandise inventory and general intangible assets (including trademarks and trade names) of the Company. At December 30, 2001, loans under the CIT Credit Facility bear interest at a rate of LIBOR (2.0% at December 30, 2001) plus 1.50% or the Chase Manhattan prime lending rate (5% at December 30, 2001). An annual fee of 0.325%, payable monthly, is assessed on the unused portion of the facility. On December 30, 2001, the Company had \$25,000 in LIBOR and prime lending rate borrowings and letters of credit of \$3,435 outstanding. The Company's maximum eligible borrowing available under the facility is limited to 70% of the aggregate value of eligible inventory during November through February and 65% of the aggregate value of eligible inventory during the remaining months of the year. Available borrowings over and above actual LIBOR and prime rate borrowings and letters of credit outstanding on the CIT Credit Facility amounted to \$91,366 at December 30, 2001.

The various debt agreements contain covenants restricting the ability of the Company to, among other things, incur additional debt, create or allow liens, pay dividends, merge or consolidate with or invest in other companies, sell, lease or transfer all or substantially all of its properties or assets, or make certain payments with respect to its outstanding capital stock, issue preferred stock and engage in certain

BIG 5 SPORTING GOODS CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

transactions with affiliates. In addition, the Company must comply with certain financial covenants. The Company was in compliance with all such covenants at December 30, 2001.

(4) Fair Values of Financial Instruments

The fair value of cash, trade and other receivables, trade accounts payable and accrued expenses approximate the fair values of these instruments due to their short-term nature. The fair value of the Senior Notes at December 30, 2001 approximated \$103,546 based on recent market prices. The fair value of the Senior Discount Notes at December 30, 2001 approximated \$24,545 based on recent market prices. The carrying amount of the revolving credit facility reflects the fair value based on current rates available to the Company for debt with the same remaining maturities.

(5) Leases

The Company currently leases certain stores, distribution facilities, vehicles and equipment under noncancelable operating leases that expire through the year 2019. These leases generally contain renewal options for periods ranging from 5 to 15 years and require the Company to pay all executory costs such as maintenance and insurance.

Certain leases contain escalation clauses and provide for contingent rentals based on percentages of sales. The Company recognizes rental expense on a straight-line basis over the terms of the underlying leases, without regard to when rentals are paid. The accrual of the current noncash portion of this rental expense has been included in depreciation and amortization in the accompanying consolidated statements of operations and cash flows and deferred rent in the accompanying consolidated balance sheets.

Rental expense for operating leases consisted of the following:

	Fiscal Year Ended		
	January 2, 2000	December 31, 2000	December 30, 2001
Cash rental payments	\$27,179	\$29,667	\$31,602
Noncash rentals	625	375	258
Contingent rentals	1,360	1,592	1,710
Rental expense	<u>\$29,164</u>	<u>\$31,634</u>	<u>\$33,570</u>

Future minimum lease payments (cash rentals) under noncancelable operating leases (with initial or remaining lease terms in excess of one year) as of December 30, 2001 are:

Year ending:	
2002	\$ 33,350
2003	32,957
2004	32,178
2005	29,552
2006	25,262
Thereafter	113,525

BIG 5 SPORTING GOODS CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Accrued Expenses

Accrued expenses consist of the following:

	December 31, 2000	December 30, 2001
Payroll and related expenses	\$12,494	\$13,051
Advertising	5,059	5,768
Sales tax	6,781	7,285
Income tax	8,018	3,673
Litigation settlement	—	2,515
Other	15,129	20,351
	<u>\$47,481</u>	<u>\$52,643</u>

(7) Income Taxes

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

	Fiscal Year Ended		
	January 2, 2000	December 31, 2000	December 30, 2001
Income tax before extraordinary gain (loss)	\$4,000	\$7,324	\$ 9,218
Tax effect of extraordinary gain (loss)	(249)	61	1,062
Total income tax expense	<u>\$3,751</u>	<u>\$7,385</u>	<u>\$10,280</u>
	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
2001:			
Federal	\$ 6,761	\$ 711	\$7,546
State	1,561	95	1,672
	<u>\$ 8,322</u>	<u>\$ 806</u>	<u>\$9,218</u>
2000:			
Federal	\$10,506	\$(4,882)	\$5,624
State	2,310	(610)	1,700
	<u>\$12,816</u>	<u>\$(5,492)</u>	<u>\$7,324</u>
1999:			
Federal	\$ 4,591	\$(1,327)	\$3,264
State	976	(240)	736
	<u>\$ 5,567</u>	<u>\$(1,567)</u>	<u>\$4,000</u>

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

	Fiscal Year Ended		
	January 2, 2000	December 31, 2000	December 30, 2001
Tax expense at statutory rate	\$3,568	\$6,434	\$7,904
State taxes, net of federal benefit	495	875	1,093
Other	(63)	15	221
	<u>\$4,000</u>	<u>\$7,324</u>	<u>\$9,218</u>

BIG 5 SPORTING GOODS CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	December 31, 2000	December 30, 2001
Deferred tax assets:		
Self-insurance reserves	\$ 1,844	\$ 1,987
Employee benefits	1,754	1,946
State taxes	809	627
Noncash rent expense	3,001	3,104
Amortization of tangible and intangible assets	598	194
Deferred interest	4,560	5,282
Other	883	405
	<hr/>	<hr/>
Deferred tax assets	13,449	13,545
Deferred liabilities — basis in fixed assets	290	1,192
	<hr/>	<hr/>
Net deferred tax assets	\$13,159	\$12,353

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

(8) Employee Benefit Plans

The Company has a 401(k) plan that covers all eligible employees. All employee contributions may be supplemented by Company contributions. The Company contributed \$1,483 for the year ended January 2, 2000, \$1,650 for the year ended December 31, 2000 and \$1,830 for the year ended December 30, 2001 in employer matching and profit sharing contributions.

The Company has no other significant postretirement or postemployment benefits.

(9) 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 and PE. 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 described as follows. An affiliate of a stockholder of the Company holds convertible preferred stock in Rite Aid, which, if converted, would represent approximately 11% of Rite Aid's outstanding stock.

BIG 5 SPORTING GOODS CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company leases certain property and equipment from Rite Aid, which leases this property and equipment from an outside party. Charges related to these leases totaled \$194 for the year ended January 2, 2000, \$203 for the year ended December 31, 2000 and \$212 for the year ended December 30, 2001.

The Company has a Management Services Agreement with an investment advisor group that is an affiliate of a stockholder of the Company that expires in May 2005, under which \$333, plus expenses, will be paid annually for financial advisory and investment banking services. During each of the years ended January 2, 2000, December 31, 2000, and December 30, 2001, the Company paid \$340 to this advisor group. An executive officer and equity owner of the investment advisor group is a member of the Company's board of directors.

(10) Contingencies

In August 2001, the Company received a copy of a complaint alleging violations of the California Labor Code and the Business and Professions Code. This complaint was brought as a purported class action with two subclasses comprised of its California store managers and its California first assistant store managers. The plaintiffs allege that the Company improperly classified its store managers and first assistant store managers as exempt employees not entitled to overtime pay for work in excess of forty hours per week. They seek, on behalf of the class members, back pay for overtime allegedly not paid, statutory penalties in the amount of an additional thirty days' wages for each employee whose employment terminated in the four years preceding the complaint and injunctive relief to require the Company to treat its store management as non-exempt. On February 8, 2002, the Company filed a joint settlement with the court for this complaint. Under the terms of the settlement, the Company agreed to pay \$32.46 per week of active employment as store manager during August 8, 1997 through December 31, 2001, the covered period, and \$25.50 per week of active employment as first assistant store manager during the covered period to each class member who submits a valid and timely claim form. The Company also agreed to pay attorneys' fees, plus costs and expenses, in the amount of \$690, as well as up to \$40 for the cost of the settlement administrator. In addition, the Company agreed to pay the class representatives an additional aggregate amount of \$32.5 for their service as named plaintiffs. The settlement is subject to the approval of the court. Once approved, the settlement will constitute a full and complete settlement and release of all claims related to the lawsuit. In addition, the Company admits no liability or other wrongdoing with respect to the claims set forth in the lawsuit. The Company intends to defend the case vigorously if the court does not approve the settlement agreement. If the settlement is not approved by the court, an adverse result in this litigation could harm 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 recorded a litigation charge of \$2,515 in the fourth quarter of 2001 to provide for expected payments to class members as well as legal and other fees associated with the settlement of this complaint.

The Company is also 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.

(11) Business Concentrations

The Company operates traditional sporting goods retail stores located principally in the Western states of the United States. The Company is subject to regional risks such as the local economies, weather conditions and natural disasters and government regulations. If the region were to suffer an economic downturn or if other adverse regional events were to occur, there could be a significant adverse effect on management's estimates and an adverse impact on the Company's performance. The retail industry is

BIG 5 SPORTING GOODS CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

impacted by the general economy. Changes in the marketplace may significantly affect management's estimates and the Company's performance.

(12) Quarterly Financial Data (Unaudited)

Fiscal Year Ended December 31, 2000

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Net sales	\$129,712	\$137,271	\$146,169	\$158,324	\$571,476
Gross profit	42,888	48,394	48,913	54,241	194,436
Net income	134	2,598	2,422	5,994	11,148

Fiscal Year Ended December 30, 2001

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Net sales	\$143,179	\$151,456	\$158,085	\$169,761	\$622,481
Gross profit	47,837	53,609	52,956	60,400	214,802
Net income	2,643	3,257	2,945	6,120	14,965

(13) Redeemable Preferred Stock

In November 1997, the Company authorized and issued 350,000 shares of redeemable Series A 13.45% Senior Exchangeable Preferred Stock (Preferred Stock), par value \$0.01 per share, with a liquidation preference of \$100.00 per share as of the date of issue. The Preferred Stock has a liquidation preference over the Common Stock equal to the initial liquidation value of the Preferred Shares plus accrued and unpaid dividends thereon. The Preferred Stock bears cumulative dividends at the rate of 13.45% per annum. Dividends may, at the option of the Company, be paid in cash or by adding to the liquidation preference of the Preferred Stock an amount equal to the dividends then accrued and payable. The Preferred Stock may, subject to certain conditions, be exchanged at the option of the Company into Subordinated Exchange Debentures, which shall have terms substantially similar to those of the Preferred Stock. Accrued and unpaid dividends were \$918 and \$1,012 at December 31, 2000 and December 30, 2001, respectively.

Redeemable preferred stock consists of the following:

	Fiscal Year Ended		
	January 2, 2000	December 31, 2000	December 30, 2001
Initial liquidation preference	\$35,000	\$35,000	\$35,000
Dividends added to initial liquidation preference	10,408	16,721	23,911
	<u>\$45,408</u>	<u>\$51,721</u>	<u>\$58,911</u>

The Preferred Stock is subject to mandatory redemption on November 13, 2009 at 100% of the liquidation preference plus accrued and unpaid dividends. Prior to November 13, 2002, the Company may also redeem the Preferred Stock with the proceeds from an initial public offering of its common stock at 110% of the liquidation preference plus accrued and unpaid dividends. The Preferred Stock may be redeemed at the option of the Company in whole or in part on or after November 13, 2002 at the redemption prices set forth below with respect to the indicated redemption date together with any accrued and unpaid dividends to such redemption date.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

If redeemed during the 12-month period beginning November 13, the redemption prices of the Preferred Stock before accrued and unpaid interest are as follows:

Year	Percentage
2002	106.725%
2003	105.380
2004	104.035
2005	102.690
2006	101.345
2007 and thereafter	100.000

(14) Stock Options, Restricted Stock and Warrant

1997 Management Equity Plan

The 1997 Management Equity Plan (Plan) provides for the sale of shares or granting of incentive stock options or nonqualified options to officers, directors and selected key employees of the Company to purchase shares of the Company's common stock. The 1997 Plan is administered by the board of directors of the Company and the granting of awards under the Plan is discretionary with respect to the individuals to whom and the times at which awards are made, the number of options awarded or shares sold, and the vesting and exercise period of such awards. The options and stock granted under the Plan must have an exercise or sale price that is no less than 85% of the fair value of the Company's common stock at the time the stock option or stock is granted or sold. The aggregate number of common shares that may be allocated to awards under the Plan is 560,000 shares. No more than 100,000 of these shares shall be subject to stock options outstanding at any time. Options granted or restricted stock sold under the 1997 Plan vest ratably over five years from the date the options are granted and have an exercise period not to exceed 120 months from the date the Stock option is granted. The Plan does not allow for the transfer of options or stock purchase rights. As of December 30, 2001, no options had been granted under the 1997 Plan and 462,309 shares of restricted common stock had been sold under the Plan.

In connection with the issuance of the Senior Discount Notes in 1997, the Company issued a warrant to purchase 60,000 shares of common stock. The warrant is exercisable at any time with an exercise price of \$0.01 per share. The warrant expires on November 30, 2008. The fair value of the warrant at the time of issuance was \$300, determined by cash purchases of common stock on the same date. At December 30, 2001, the warrant had not been exercised.

BIG 5 SPORTING GOODS CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(15) Earnings Per Share

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

	Fiscal Year Ended		
	January 2, 2000	December 31, 2000	December 30, 2001
Income before extraordinary gain (loss)	\$ 6,197	\$ 11,061	\$ 13,365
Extraordinary gain (loss)	(372)	87	1,600
Net income	5,825	11,148	14,965
Less: Preferred stock dividends	5,621	6,400	7,284
Net income available to common stockholders	\$ 204	\$ 4,748	\$ 7,681
Basic earnings per share:			
Income before extraordinary gain (loss)	\$ 0.30	\$ 2.42	\$ 3.16
Net income	\$ 0.11	\$ 2.46	\$ 3.99
Diluted earnings per share:			
Income before extraordinary gain (loss)	\$ 0.29	\$ 2.35	\$ 3.06
Net income	\$ 0.10	\$ 2.39	\$ 3.87
Weighted average shares of common stock outstanding:			
Basic	1,927,374	1,926,870	1,926,474
Dilutive effect of outstanding warrant	60,000	60,000	60,000
Diluted	1,987,374	1,986,870	1,986,474

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PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution

The following table sets forth the estimated costs and expenses, other than underwriting discounts and commissions, payable in connection with the sale of common stock being registered, all of which will be paid by the Registrant:

	Amount
Registration fee — Securities and Exchange Commission	\$ 28,750
Filing fee — National Association of Securities Dealers, Inc.	12,000
Quotation fee — The Nasdaq National Market	95,000
Printing and engraving expenses	200,000
Legal fees and expenses	750,000
Accounting fees and expenses	200,000
Blue sky fees and expenses	10,000
Transfer agent and registrar fees and expenses	15,000
Miscellaneous	50,000
Total	\$1,360,750

Item 14. Indemnification of Directors and Officers

Section 145 of the Delaware General Corporation (“DGCL”) provides that a corporation has the power to indemnify its officers, directors, employees and agents (or persons serving in such positions in another entity at the request of the corporation) against expenses, including attorney’s fees, judgments, fines or settlement amounts actually and reasonably incurred by them in connection with the defense of any action by reason of being or having been directors or officers, if such person shall have acted in good faith and in a manner reasonably believed to be in or not opposed to the best interests of the corporation (and, with respect to any criminal action, had no reasonable cause to believe the person’s conduct was unlawful), except that if such action shall be by or in the right of the corporation, no such indemnification shall be provided as to any claim, issue or matter as to which such person shall have been judged to have been liable to the corporation unless and to the extent that the Court of Chancery of the State of Delaware, or another court in which the suit was brought, shall determine upon application that, in view of all of the circumstances of the case, such person is fairly and reasonably entitled to indemnity. The Registrant’s certificate of incorporation provides that the Registrant will indemnify its officers and directors to the fullest extent permitted by Delaware law.

As permitted by Section 102 of the DGCL, the Registrant’s certificate of incorporation will provide that no director shall be liable to the Registrant or its stockholders for monetary damages for any breach of fiduciary duty as a director other than (i) for breaches of the director’s duty of loyalty to the Registrant or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) for the unlawful payment of dividends or unlawful stock purchases or redemptions under Section 174 of the DGCL, or (iv) for any transaction from which the director derived an improper personal benefit.

The Underwriting Agreement is expected to provide that the underwriters are obligated, under certain circumstances, to indemnify directors, officers and controlling persons of the Registrant against certain liabilities, including liabilities under the Securities Act. Reference is made to the form of Underwriting Agreement to be filed as Exhibit 1.1 hereto.

The Registrant maintains directors and officers liability insurance for the benefit of its directors and certain of its officers, and intends to enter into indemnification agreements (in the form to be filed as Exhibit 10.16 hereto) for the benefit of its directors and certain of its officers.

Item 15. Recent Sales of Unregistered Securities

There have been no sales of the Registrant's securities that were not registered under the Securities Act during the past three years.

Item 16. Exhibits and Financial Statement Schedules**(a) Exhibits**

See exhibits listed on the Exhibit Index following the signature page of this Form S-1, which is incorporated herein by reference.

(b) Financial Statement Schedules:

	<u>Page</u>
Schedule II — Valuation and Qualifying Accounts	S-1

Schedules not listed above have been omitted because the information required to be set forth therein is not applicable or is shown in the financial statements or notes thereto.

Item 17. Undertakings

The undersigned Registrant hereby undertakes to provide to the Underwriters at the closing specified in the Underwriting Agreement certificates in such denominations and registered in such names as required by the Underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification by the Registrant for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the provisions referenced in Item 14 of this Registration Statement or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer, or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by a director, officer or controlling person in connection with the securities being registered hereunder, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act, and will be governed by the final adjudication of such issue.

The undersigned Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of Prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of Prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of Prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Los Angeles, California, on the 18th day of March, 2002.

BIG 5 SPORTING GOODS CORPORATION

By: _____ *

Steven G. Miller
President and Chief Executive Officer

Pursuant to the requirements of the Securities Act, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated below.

Signature	Title	Date
_____ *	President, Chief Executive Officer and Director (Principal Executive Officer)	March 18, 2002
Steven G. Miller		
_____ *	Chief Financial Officer (Principal Financial and Accounting Officer)	March 18, 2002
Charles P. Kirk		
_____ *	Chairman of the Board	March 18, 2002
Robert W. Miller		
_____ *	Director	March 18, 2002
Michael D. Miller		
_____ *	Director	March 18, 2002
John G. Danhagl		
*By: /s/ GARY S. MEADE		
_____ Gary S. Meade Attorney-in-Fact		

BIG 5 SPORTING GOODS CORPORATION AND SUBSIDIARY
SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

(dollars in thousands)

	Balance at Beginning of Year	Additions: Charges to Operations	Deductions: A/R Write Offs	Balance at End of Year
January 2, 2000				
Allowance for doubtful receivables	\$939	\$181	\$(621)	\$499
December 31, 2000				
Allowance for doubtful receivables	499	365	(257)	607
December 30, 2001				
Allowance for doubtful receivables	607	129	(65)	671

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EXHIBIT INDEX

Exhibit Number	Title
1.1	Form of Underwriting Agreement*
3.1	Restated Certificate of Incorporation of the Registrant (as currently in effect)(4)
3.1.1	Certificate of Amendment of Certificate of Incorporation of the Registrant (as currently in effect)(4)
3.2	Registrant Bylaws (as currently in effect)(4)
3.3	Form of Amended and Restated Certificate of Incorporation of the Registrant (to be filed with the Delaware Secretary of State prior to the closing of the offering)*
3.4	Form of Amended and Restated Bylaws (to be adopted upon the closing of the offering)*
4.1	Form of Specimen of Common Stock Certificate*
4.2	Indenture dated as of November 13, 1997 between Big 5 Corp. and First Trust National Association, as trustee(1)
4.3	Form of Big 5 Corp. 10.875% Series B Senior Notes due 2007 (included in Exhibit 4.2)(1)
4.4	Indenture dated as of November 13, 1997 between the Registrant and First Trust National Association, as trustee(4)
4.5	Form of Registrant 13.45% Senior Discount Notes due 2008(4)
5.1	Opinion of Irell & Manella LLP (including consent)*
10.1	Amended and Restated Stockholders Agreement among the Registrant, Green Equity Investors, L.P., Steven G. Miller and Robert W. Miller*
10.2	Management Services Agreement dated as of November 13, 1997 by and among Registrant, Big 5 Corp. and Leonard Green & Associates, L.P.(1)
10.3	1997 Management Equity Plan(4)
10.4	2002 Stock Incentive Plan*
10.5	Amended and Restated Employment Agreement between Robert W. Miller and the Registrant*
10.6	Amended and Restated Employment Agreement between Steven G. Miller and the Registrant*
10.7	Amended and Restated Indemnification Implementation Agreement between Big 5 Corp. (successor to United Merchandising Corp.) and Thrifty PayLess Holdings, Inc. dated as of April 20, 1994(2)
10.8	Agreement and Release among Pacific Enterprises, Thrifty PayLess Holdings, Inc., Thrifty PayLess, Inc., Thrifty and Big 5 Corp. (successor to United Merchandising Corp.) dated as of March 11, 1994(2)
10.12	Lease among Big 5 Corp. (Lessee) and the State of Wisconsin Investment Board (Lessor) dated as of March 5, 1996(3)
10.9	Financing Agreement dated March 8, 1996 between The CIT Group/ Business Credit, Inc. and Big 5 Corp.(3)
10.10	Grant of Security Interest in and Collateral Assignment of Trademarks and Licenses dated as of March 8, 1996 by Big 5 Corp. in favor of The CIT Group/ Business Credit, Inc.(3)
10.11	Guarantee dated March 8, 1996 by Big 5 Corporation (now known as the Registrant) in favor of The CIT Group/ Business Credit, Inc.(3)
10.13	Letter from The CIT Group/ Business Credit, Inc. to the Big 5 Corp. dated November 13, 1997, amending the Financing Agreement dated March 8, 1996 between Big 5 Corp. (successor to United Merchandising Corp.) and The CIT Group/ Business Credit, Inc.(1)
10.14	Letter from The CIT Group/ Business Credit, Inc. to Big 5 Corp. dated December 16, 1997, amending the Financing Agreement dated March 8, 1996 between Big 5 Corp. (successor to United Merchandising Corp.) and The CIT Group/ Business Credit, Inc.(4)

Exhibit Number	Title
10.15	Fifth Amendment to Financing Agreement, dated March 21, 2000, by and among Big 5 Corp. and The CIT Group/ Business Credit, Inc., amending the Financing Agreement, dated March 8, 1996, between Big 5 Corp. (successor to United Merchandising Corp.) and The CIT Group/ Business Credit, Inc.(4)
10.16	Sixth Amendment to Financing Agreement, dated February 27, 2002, by and among Big 5 Corp. and The CIT Group/ Business Credit, Inc., amending the Financing Agreement, dated March 8, 1996, between Big 5 Corp. (successor to United Merchandising Corp.) and The CIT Group/ Business Credit, Inc.(5)
10.17	Form of Indemnification Agreement*
21.1	Subsidiaries of the Registrant(4)
23.1	Consent of KPMG LLP(5)
23.2	Consent of Irell & Manella LLP (included in Exhibit No. 5.1)*
24.1	Powers of Attorney(4)

* To be filed by amendment.

- (1) Incorporated by reference to Big 5 Corp.'s Registration Statement on Form S-4 (File No. 333-43129) filed with the Securities and Exchange Commission on December 23, 1997.
- (2) Incorporated by reference to Big 5 Corp.'s Annual Report on Form 10-K for the year ended January 1, 1995
- (3) Incorporated by reference to Big 5 Corp.'s Annual Report on Form 10-K for the year ended December 31, 1995.
- (4) Previously filed with the Form S-1 filed by the Registrant on August 21, 2001.
- (5) Filed herewith.

SIXTH AMENDMENT
TO FINANCING AGREEMENT

This SIXTH AMENDMENT TO FINANCING AGREEMENT (this "AMENDMENT"), dated as of February 27, 2002, is entered into by and between BIG 5 CORP., a Delaware corporation ("BORROWER"), each of the lenders that is a signatory to this Amendment (collectively, the "LENDERS"), and THE CIT GROUP/BUSINESS CREDIT, INC., a New York corporation, as agent for the Lenders (in such capacity, the "AGENT").

RECITALS

A. Borrower, Agent and Lenders previously entered into that certain Financing Agreement dated as of March 8, 1996, as amended (the "FINANCING AGREEMENT"), pursuant to which Lenders provide loans and other financial accommodations to Borrower from time to time.

B. Borrower has requested that Agent and Lenders amend the Financing Agreement to extend the current term of the Financing Agreement.

C. Agent and Lenders are willing to agree to such amendment on the terms and subject to the conditions set forth below.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing, the mutual covenants and agreements set forth below and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties agree as follows:

1. Definitions. Capitalized terms used herein and not otherwise defined herein, shall have the respective meanings set forth in the Financing Agreement.

2. Amendment. The definition of Anniversary Date in the Financing Agreement is hereby amended and restated in its entirety to read as follows:

"ANNIVERSARY DATE" shall mean the date occurring one (1) year from the date of December 31, 1997 and the same date in every year thereafter; provided, however, that if the Company gives notice, in accordance with Section 10 of this Financing Agreement, to terminate on an Anniversary Date and such date is not a Business Day, then the Anniversary Date shall be the next succeeding Business Day.

3. Conditions to Effectiveness. The foregoing amendments shall become effective only upon the satisfaction of all of the following conditions precedent (the date of satisfaction of all such conditions being referred to as the "AMENDMENT EFFECTIVE DATE"):

(a) Agent shall have received this Amendment, duly executed and delivered by the parties hereto.

(b) Each of the representations and warranties set forth in this Amendment shall be true and correct as of the Amendment Effective Date.

(c) Agent shall have received for the pro rata benefit of the Lenders an amendment fee of \$10,000.00 payable by Borrower and fully earned by the Lenders as of the date hereof.

4. Representations and Warranties. In order to induce Agent and Lenders to enter into this Amendment and to amend the Financing Agreement in the manner provided in this Amendment, Borrower represents and warrants to Agent and Lenders as of the Amendment Effective Date as follows:

(a) Power and Authority. Borrower has all requisite corporate power and authority to enter into this Amendment and to carry out the transactions contemplated by, and perform its obligations under, the Financing Agreement as amended by this Amendment.

(b) Authorization of Agreements. The execution and delivery of this Amendment by Borrower and the performance by Borrower of the Financing Agreement, as amended hereby, have been duly authorized by all necessary action, and this Amendment has been duly executed and delivered by Borrower.

(c) Representations and Warranties in the Financing Agreement. Borrower confirms that as of the Amendment Effective Date, the representations and warranties contained in Section 6 of the Financing Agreement are (before and after giving effect to this Amendment) true and correct in all material respects (except to the extent any such representation and warranty is expressly stated to have been made as of a specific date, in which case it shall be true and correct as of such specific date) and that no Event of Default has occurred and is continuing.

5. Miscellaneous.

(a) Reference to and Effect on the Existing Financing Agreement.

(i) Except as specifically amended by this Amendment and the documents executed and delivered in connection herewith, the Financing Agreement shall remain in full force and effect and is hereby ratified and confirmed.

(ii) The execution and delivery of this Amendment and performance of the Financing Agreement shall not, except as expressly provided herein, constitute a

waiver of any provision of, or operate as a waiver of any right, power or remedy of Agent and any Lender under, the Financing Agreement or any agreement or document executed in connection therewith.

(iii) Upon the conditions precedent set forth herein being satisfied, this Amendment shall be construed as one with the existing Financing Agreement, and the existing Financing Agreement shall, where the context requires, be read and construed throughout so as to incorporate this Amendment.

(b) Fees and Expenses. The Borrower acknowledges that all costs, fees and expenses incurred in connection with this Amendment will be paid in accordance with Section 7 of the Financing Agreement.

(c) Headings. Section and subsection headings in this Amendment are included for convenience of reference only and shall not constitute a part of this Amendment for any other purpose or be given any substantive effect.

(d) Counterparts and Facsimile. This Amendment may be executed in one or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Amendment by facsimile shall be effective as delivery of a manually executed counterpart of this Amendment.

(e) Governing Law. This Amendment shall be governed by according to the laws of the State of California.

IN WITNESS WHEREOF, the parties hereto have duly executed this Amendment as of the date first above written.

BIG 5 CORP.

By: /s/ Charles P. Kirk

Charles P. Kirk
Senior Vice President and CFO

THE CIT GROUP/BUSINESS CREDIT, INC. (AS AGENT AND LENDER)

By: /s/ Michael Gardner

Michael Gardner
Vice President

FLEET CAPITAL CORPORATION (AS LENDER)

By: /s/ Matthew R. Van Steenhuyse

Matthew R. Van Steenhuyse
Senior Vice President

PNC BANK, NATIONAL ASSOCIATION (AS LENDER)

By: /s/ Mark Tito

Mark Tito
Vice President

BANKAMERICA BUSINESS CREDIT, INC. (AS LENDER)

By: /s/ Steve J. Sharp

Steve J. Sharp
Vice President

TRANSAMERICA BUSINESS CREDIT (AS LENDER)

By: /s/ James Lemperis

James Lemperis
Vice President

The Board of Directors
Big 5 Sporting Goods Corporation:

The audits referred to in our report dated March 1, 2002 included the related financial statement schedule as of December 30, 2001 and for each of the fiscal years ended December 30, 2001, December 31, 2000 and January 2, 2000 included in the registration statement. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statement schedule based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

We consent to the use of our reports included herein and to the reference to our firm under the heading "Experts" in the prospectus.

KPMG LLP

Los Angeles, California
March 18, 2002

