UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 29, 2014

OR

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

For the transition period from __________ to __________

Commission file number: 000-49850

BIG 5 SPORTING GOODS CORPORATION
(Exact name of registrant as specified in its charter)

Delaware **(State or Other Jurisdiction of Incorporation or Organization)**	**95-4388794** **(I.R.S. Employer Identification No.)**
2525 East El Segundo Boulevard **El Segundo, California** **(Address of Principal Executive Offices)**	**90245** **(Zip Code)**

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

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

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

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

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

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

There were 22,307,900 shares of common stock, with a par value of $0.01 per share outstanding as of July 24, 2014.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 29, 2014	December 29, 2013
ASSETS		
Current assets:		
Cash	$ 6,230	$ 9,400
Accounts receivable, net of allowances of $51 and $105, respectively	10,999	16,301
Merchandise inventories, net	324,940	300,952
Prepaid expenses	13,198	6,356
Deferred income taxes	9,885	12,000
Total current assets	365,252	345,009
Property and equipment, net	72,453	75,608
Deferred income taxes	14,682	13,564
Other assets, net of accumulated amortization of $979 and $891, respectively	3,734	3,274
Goodwill	4,433	4,433
Total assets	$460,554	$ 441,888
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$114,413	$ 104,826
Accrued expenses	55,698	69,923
Current portion of capital lease obligations	1,376	1,567
Total current liabilities	171,487	176,316
Deferred rent, less current portion	19,924	21,078
Capital lease obligations, less current portion	1,410	1,595
Long-term debt	68,173	43,018
Other long-term liabilities	9,963	9,111
Total liabilities	270,957	251,118
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.01 par value, authorized 50,000,000 shares; issued 24,441,060 and 24,339,537 shares, respectively; outstanding 22,307,700 and 22,297,701 shares, respectively	244	244
Additional paid-in capital	109,805	109,901
Retained earnings	106,692	106,565
Less: Treasury stock, at cost; 2,133,360 and 2,041,836 shares, respectively	(27,144)	(25,940)
Total stockholders' equity	189,597	190,770
Total liabilities and stockholders' equity	$460,554	$ 441,888

See accompanying notes to unaudited condensed consolidated financial statements.

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

	13 Weeks Ended		26 Weeks Ended	
	June 29, 2014	June 30, 2013	June 29, 2014	June 30, 2013
Net sales	$231,150	$239,899	$462,413	$486,165
Cost of sales	155,577	160,226	314,162	326,017
Gross profit	75,573	79,673	148,251	160,148
Selling and administrative expense	71,146	69,180	140,050	137,108
Operating income	4,427	10,493	8,201	23,040
Interest expense	371	418	805	871
Income before income taxes	4,056	10,075	7,396	22,169
Income taxes	1,521	3,971	2,801	8,551
Net income	$ 2,535	$ 6,104	$ 4,595	$ 13,618
Earnings per share:				
Basic	$ 0.12	$ 0.28	$ 0.21	$ 0.63
Diluted	$ 0.11	$ 0.28	$ 0.21	$ 0.62
Dividends per share	$ 0.10	$ 0.10	$ 0.20	$ 0.20
Weighted-average shares of common stock outstanding:				
Basic	21,985	21,714	21,982	21,583
Diluted	22,113	22,005	22,198	21,936

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Common Stock		Additional Paid-In	Retained	Treasury Stock,	
	Shares	Amount	Capital	Earnings	At Cost	Total
Balance as of December 30, 2012	21,741,248	$ 238	$102,658	$ 87,464	$(25,940)	$164,420
Net income	—	—	—	13,618	—	13,618
Dividends on common stock ($0.20 per share)	—	—	—	(4,396)	—	(4,396)
Issuance of nonvested share awards	127,020	1	(1)	—	—	—
Exercise of share option awards	376,020	4	3,402	—	—	3,406
Share-based compensation	—	—	928	—	—	928
Tax benefit from share-based awards activity	—	—	1,173	—	—	1,173
Forfeiture of nonvested share awards	(1,200)	—	—	—	—	—
Retirement of common stock for payment of withholding tax	(41,812)	—	(641)	—	—	(641)
Balance as of June 30, 2013	22,201,276	$ 243	$107,519	$ 96,686	$(25,940)	$178,508
Balance as of December 29, 2013	22,297,701	$ 244	$109,901	$106,565	$(25,940)	$190,770
Net income	—	—	—	4,595	—	4,595
Dividends on common stock ($0.20 per share)	—	—	—	(4,468)	—	(4,468)
Issuance of nonvested share awards	152,920	1	(1)	—	—	—
Exercise of share option awards	8,925	—	55	—	—	55
Share-based compensation	—	—	985	—	—	985
Tax deficiency from share-based awards activity	—	—	(327)	—	—	(327)
Forfeiture of nonvested share awards	(7,395)	—	—	—	—	—
Retirement of common stock for payment of withholding tax	(52,927)	(1)	(808)	—	—	(809)
Purchases of treasury stock	(91,524)	—	—	—	(1,204)	(1,204)
Balance as of June 29, 2014	22,307,700	$ 244	$109,805	$106,692	$(27,144)	$189,597

See accompanying notes to unaudited condensed consolidated financial statements.

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

	26 Weeks Ended	
	June 29, 2014	June 30, 2013
Cash flows from operating activities:		
Net income	$ 4,595	$ 13,618
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	10,534	9,739
Impairment of store assets	756	—
Share-based compensation	985	928
Excess tax benefit related to share-based awards	(181)	(1,369)
Amortization of debt issuance costs	88	127
Deferred income taxes	997	55
Changes in operating assets and liabilities:		
Accounts receivable, net	5,302	992
Merchandise inventories, net	(23,988)	(23,232)
Prepaid expenses and other assets	(7,717)	(1,795)
Accounts payable	19,779	22,288
Accrued expenses and other long-term liabilities	(13,354)	(10,943)
Net cash (used in) provided by operating activities	(2,204)	10,408
Cash flows from investing activities:		
Purchases of property and equipment	(8,785)	(6,740)
Proceeds from solar energy rebate	100	—
Net cash used in investing activities	(8,685)	(6,740)
Cash flows from financing activities:		
Principal borrowings under revolving credit facility	105,588	117,463
Principal payments under revolving credit facility	(80,433)	(120,051)
Changes in book overdraft	(10,326)	(1,570)
Principal payments under capital lease obligations	(827)	(908)
Proceeds from exercise of share option awards	55	3,406
Excess tax benefit related to share-based awards	181	1,369
Purchases of treasury stock	(1,204)	(75)
Tax withholding payments for share-based compensation	(809)	(641)
Dividends paid	(4,506)	(4,393)
Net cash provided by (used in) financing activities	7,719	(5,400)
Net decrease in cash	(3,170)	(1,732)
Cash at beginning of period	9,400	7,635
Cash at end of period	$ 6,230	$ 5,903
Supplemental disclosures of non-cash investing and financing activities:		
Property and equipment acquired under capital leases	$ 451	$ 392
Property and equipment additions unpaid	$ 1,876	$ 2,135
Supplemental disclosures of cash flow information:		
Interest paid	$ 759	$ 732
Income taxes paid	$ 4,558	$ 9,121

See accompanying notes to unaudited condensed consolidated financial statements.

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

(1) Description of Business

Business

Big 5 Sporting Goods Corporation (the "Company") is a leading sporting goods retailer in the western United States, operating 427 stores in 12 states as of June 29, 2014. The Company provides a full-line product offering in a traditional sporting goods store format that averages approximately 11,000 square feet. The Company's product mix includes athletic shoes, apparel and accessories, as well as a broad selection of outdoor and athletic equipment for team sports, fitness, camping, hunting, fishing, tennis, golf, winter and summer recreation and roller sports. The Company is a holding company that operates as one reportable segment through Big 5 Corp., its wholly-owned subsidiary, and Big 5 Services Corp., which is a wholly-owned subsidiary of Big 5 Corp. Big 5 Services Corp. provides a centralized operation for the issuance and administration of gift cards.

The accompanying interim unaudited condensed consolidated financial statements ("Interim Financial Statements") of the Company and its wholly-owned subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and are presented in accordance with the requirements of Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, these Interim Financial Statements do not include all of the information and notes required by GAAP for complete financial statements. These Interim Financial Statements should be read in conjunction with the consolidated financial statements and notes thereto for the fiscal year ended December 29, 2013 included in the Company's Annual Report on Form 10-K. In the opinion of management, the Interim Financial Statements included herein contain all adjustments, including normal recurring adjustments, considered necessary to present fairly the Company's financial position, the results of operations and cash flows for the periods presented.

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

(2) Summary of Significant Accounting Policies

Consolidation

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

Reporting Period

The Company follows the concept of a 52-53 week fiscal year, which ends on the Sunday nearest December 31. Fiscal year 2014 is comprised of 52 weeks and ends on December 28, 2014. Fiscal year 2013 was comprised of 52 weeks and ended on December 29, 2013. The fiscal interim periods in fiscal 2014 and 2013 are each comprised of 13 weeks.

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

Recently Issued Accounting Updates

In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360)—Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, which includes amendments that change the requirements for reporting discontinued operations and require additional disclosures about discontinued operations. Under the new guidance, only disposals representing a strategic shift in operations that have, or will have, a major effect on the organization's operations and financial results should be presented as discontinued operations. Additionally, ASU No. 2014-08 requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. The amendments in ASU No. 2014-08 will be applied prospectively to annual periods beginning on or after December 15, 2014, and interim periods within those years, with early adoption permitted. The Company adopted ASU No. 2014-08 in the first quarter of 2014, which did not have a material impact on the Company's Interim Financial Statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which includes amendments that create Topic 606 and supersede the revenue recognition requirements in Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. In addition, the amendments supersede the cost guidance in Subtopic 605-35, *Revenue Recognition—Construction-Type and Production-Type Contracts*, and create new Subtopic 340-40, *Other Assets and Deferred Costs—Contracts with Customers.* In summary, the core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in ASU No. 2014-09 are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. The Company is evaluating the future impact of the issuance of ASU No. 2014-09.

There have been no other recently issued accounting updates that had a material impact on the Company's Interim Financial Statements.

Use of Estimates

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

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

Revenue Recognition

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

Cash received from the sale of gift cards is recorded as a liability, and revenue is recognized upon the redemption of the gift card or when it is determined that the likelihood of redemption is remote ("gift card breakage") and no liability to relevant jurisdictions exists. The Company determines the gift card breakage rate based upon historical redemption patterns and recognizes gift card breakage on a straight-line basis over the estimated gift card redemption period (20 quarters as of the end of the second quarter of fiscal 2014). The Company recognized approximately $109,000 and $217,000 in gift card breakage revenue for the 13 and 26 weeks ended June 29, 2014, respectively, compared to approximately $104,000 and $209,000 in gift card breakage revenue for the 13 and 26 weeks ended June 30, 2013, respectively.

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

Share-Based Compensation

The Company accounts for its share-based compensation in accordance with ASC 718, *Compensation—Stock Compensation*. The Company recognizes compensation expense on a straight-line basis over the requisite service period using the fair-value method for share option awards, nonvested share awards and nonvested share unit awards granted with service-only conditions. See Note 10 to the Interim Financial Statements for a further discussion on share-based compensation.

Valuation of Merchandise Inventories, Net

The Company's merchandise inventories are made up of finished goods and are valued at the lower of cost or market using the weighted-average cost method that approximates the first-in, first-out method. Average cost includes the direct purchase price of merchandise inventory, net of certain vendor allowances and cash discounts, in-bound freight-related expense and allocated overhead expense associated with the Company's distribution center.

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

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

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

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

Valuation of Long-Lived Assets

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

Long-lived assets are reviewed for recoverability at the lowest level in which there are identifiable cash flows ("asset group"), usually at the store level. Each store typically requires investments of approximately $0.4 million in long-lived assets to be held and used, subject to recoverability testing. The carrying amount of an asset group is not considered recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset group. If the asset group is determined not to be recoverable, then an impairment charge will be recognized in the amount by which the carrying amount of the asset group exceeds its fair value, determined using discounted cash flow valuation techniques, as defined in ASC 360, *Property, Plant, and Equipment*.

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

Leases and Deferred Rent

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

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

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

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

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

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

(3) Impairment of Long-Lived Assets

In the second quarter of fiscal 2014, the Company recognized a pre-tax non-cash impairment charge of $0.8 million related to certain underperforming stores. This impairment charge is included in selling and administrative expense in the accompanying interim unaudited condensed consolidated statement of operations. No impairment charges were recognized in the first half of fiscal 2013.

(4) Fair Value Measurements

The carrying values of cash, accounts receivable, accounts payable and accrued expenses approximate the fair values of these instruments due to their short-term nature. The carrying amount for borrowings under the revolving credit facility approximates fair value because of the variable market interest rate charged to the Company for these borrowings. When the Company recognizes impairment on certain of its underperforming stores, the carrying values of these stores are reduced to their estimated fair values.

During the first half of fiscal 2014, the Company's only significant assets or liabilities measured at fair value on a nonrecurring basis subsequent to their initial recognition were certain assets subject to long-lived asset impairment. The Company classified these fair value measurements as Level 3, in accordance with ASC 820, *Fair Value Measurement*.

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

(5) Accrued Expenses

The major components of accrued expenses are as follows:

	June 29, 2014	December 29, 2013
	(In thousands)	
Payroll and related expense	$17,920	$ 23,240
Occupancy expense	8,536	9,392
Sales tax	6,007	10,110
Self-insurance liabilities	4,535	4,357
Advertising	4,459	5,734
Other	14,241	17,090
Accrued expenses	$55,698	$ 69,923

(6) Long-Term Debt

On October 18, 2010, the Company entered into a credit agreement with Wells Fargo Bank, National Association ("Wells Fargo"), as administrative agent, and a syndicate of other lenders, which was amended on October 31, 2011 and December 19, 2013 (as so amended, the "Credit Agreement"). The maturity date of the Credit Agreement is December 19, 2018.

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

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

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

Generally, the Company may designate specific borrowings under the Credit Facility as either base rate loans or LIBO rate loans. The applicable interest rate on the Company's borrowings is a function of the daily average, over the preceding fiscal quarter, of the excess of the Loan Cap over amounts borrowed (such amount being referred to as the "Average Daily Excess Availability").

On October 31, 2011, the Company entered into a First Amendment to Credit Agreement ("First Amendment") and amended certain provisions of the Credit Agreement. After the First Amendment, those loans designated as LIBO rate loans bore interest at a rate equal to the then applicable LIBO rate plus an applicable margin as shown in the table below. Those loans designated as base rate loans bore interest at a rate equal to the applicable margin for base rate loans (as shown below) plus the highest of (a) the Federal funds rate, as in effect from time to time, plus one-half of one percent (0.50%), (b) the LIBO rate, as adjusted to account for statutory reserves, plus one percent (1.00%), or (c) the rate of interest in effect for such day as publicly announced from time to time by Wells Fargo as its "prime rate." The applicable margin for all loans was as set forth below as a function of Average Daily Excess Availability for the preceding fiscal quarter.

Level	Average Daily Excess Availability	LIBO Rate Applicable Margin	Base Rate Applicable Margin
I	Greater than or equal to $70,000,000	1.50%	0.50%
II	Greater than or equal to $40,000,000	1.75%	0.75%
III	Less than $40,000,000	2.00%	1.00%

The First Amendment reduced the commitment fee assessed on the unused portion of the Credit Facility to 0.375% per annum.

On December 19, 2013, the Company entered into a Second Amendment to Credit Agreement ("Second Amendment") and amended certain provisions of the Credit Agreement. Following the Second Amendment, those loans designated as LIBO rate loans bear interest at a rate equal to the then applicable LIBO rate plus an applicable margin as shown in the table below. Those loans designated as base rate loans bear interest at a rate equal to the applicable margin for base rate loans (as shown below) plus the highest of (a) the Federal funds rate, as in effect from time to time, plus one-half of one percent (0.50%), (b) the LIBO rate, as adjusted to account for statutory reserves, plus one percent (1.00%), or (c) the rate of interest in effect for such day as publicly announced from time to time by Wells Fargo as its "prime rate." The applicable margin for all loans is as set forth below as a function of Average Daily Excess Availability for the preceding fiscal quarter.

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

Level	Average Daily Excess Availability	LIBO Rate Applicable Margin	Base Rate Applicable Margin
I	Greater than or equal to $100,000,000	1.25%	0.25%
II	Less than $100,000,000 but greater than or equal to $40,000,000	1.50%	0.50%
III	Less than $40,000,000	1.75%	0.75%

The Second Amendment further reduced the commitment fee assessed on the unused portion of the Credit Facility to 0.25% per annum, and reduced certain fees for letters of credit.

Obligations under the Credit Facility are secured by a general lien and perfected security interest in substantially all of the Company's assets. The Credit Agreement contains covenants that require the Company to maintain a fixed charge coverage ratio of not less than 1.0:1.0 in certain circumstances, and limit the ability to, among other things, incur liens, incur additional indebtedness, transfer or dispose of assets, change the nature of the business, guarantee obligations, pay dividends or make other distributions or repurchase stock, and make advances, loans or investments. The Company may declare or pay cash dividends or repurchase stock only if, among other things, no default or event of default then exists or would arise from such dividend or repurchase of stock and, after giving effect to such dividend or repurchase, certain availability and/or fixed charge coverage ratio requirements are satisfied. The Credit Agreement contains customary events of default, including, without limitation, failure to pay when due principal amounts with respect to the Credit Facility, failure to pay any interest or other amounts under the Credit Facility for five days after becoming due, failure to comply with certain agreements or covenants contained in the Credit Agreement, failure to satisfy certain judgments against the Company, failure to pay when due (or any other default which does or may lead to the acceleration of) certain other material indebtedness in principal amount in excess of $5.0 million, and certain insolvency and bankruptcy events.

The Company had long-term revolving credit borrowings of $68.2 million and $43.0 million as of June 29, 2014 and December 29, 2013, respectively. Total remaining borrowing availability, after subtracting letters of credit, was $71.2 million and $96.1 million as of June 29, 2014 and December 29, 2013, respectively.

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

(7) Income Taxes

Under the asset and liability method prescribed under ASC 740, *Income Taxes*, the Company recognizes deferred tax assets and liabilities for the future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. The realizability of deferred tax assets is assessed throughout the year and a valuation allowance is recorded if necessary to reduce net deferred tax assets to the amount more likely than not to be realized. As of June 29, 2014 and December 29, 2013, there was no valuation allowance as the deferred income tax assets were more likely than not to be realized.

The Company files a consolidated federal income tax return and files tax returns in various state and local jurisdictions. The statutes of limitations for consolidated federal income tax returns are open for fiscal years 2010 and after, and state and local income tax returns are open for fiscal years 2009 and after.

Effective January 2, 2013, The American Taxpayer Relief Act of 2012 was enacted, which contained provisions that retroactively reinstated the work opportunity tax credit (“WOTC”) and the 15-year cost recovery life of qualified leasehold improvements from January 1, 2012 through December 31, 2013. As a result of this legislation, the Company applied WOTC of approximately $0.3 million to its fiscal 2013 first quarter tax provision for amounts generated in 2012, resulting in a reduction to its estimated effective tax rate for the 2013 first quarter of 137 basis points. Also as a result of this legislation, the Company increased its 2012 federal depreciation deduction by approximately $2.8 million, which resulted in a reduction to deferred tax assets and income taxes payable by approximately $1.1 million in the first quarter of fiscal 2013.

As of June 29, 2014 and December 29, 2013, the Company had no unrecognized tax benefits that, if recognized, would affect the Company’s effective income tax rate over the next 12 months. The Company’s policy is to recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expense. As of June 29, 2014 and December 29, 2013, the Company had no accrued interest or penalties.

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

(8) Earnings Per Share

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

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

	13 Weeks Ended		26 Weeks Ended	
	June 29, 2014	June 30, 2013	June 29, 2014	June 30, 2013
	(In thousands, except per share data)			
Net income	$ 2,535	$ 6,104	$ 4,595	$13,618
Weighted-average shares of common stock outstanding:				
Basic	21,985	21,714	21,982	21,583
Dilutive effect of common stock equivalents arising from share option, nonvested share and nonvested share unit awards	128	291	216	353
Diluted	22,113	22,005	22,198	21,936
Basic earnings per share	$ 0.12	$ 0.28	$ 0.21	$ 0.63
Diluted earnings per share	$ 0.11	$ 0.28	$ 0.21	$ 0.62

The computation of diluted earnings per share for the 13 weeks ended June 29, 2014, the 26 weeks ended June 29, 2014, the 13 weeks ended June 30, 2013 and the 26 weeks ended June 30, 2013 does not include share option awards in the amounts of 505,800, 548,679, 790,269 and 801,895, respectively, that were outstanding and antidilutive (i.e., including such share option awards would result in higher earnings per share), since the exercise prices of these share option awards exceeded the average market price of the Company’s common shares.

Additionally, the computation of diluted earnings per share for the 13 weeks ended June 29, 2014, the 26 weeks ended June 29, 2014, the 13 weeks ended June 30, 2013 and the 26 weeks ended June 30, 2013 does not include nonvested share awards and nonvested share unit awards in the amounts of 231,538, 142, 4,945 and 2,473 shares, respectively, that were outstanding and antidilutive, since the grant date fair values of these nonvested share awards and nonvested share unit awards exceeded the average market price of the Company’s common shares.

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

(9) Commitments and Contingencies

The Company was served on the following dates with the following nine complaints, each of which was brought as a purported class action on behalf of persons who made purchases at the Company's stores in California using credit cards and were requested or required to provide personal identification information at the time of the transaction: (1) on February 22, 2011, a complaint filed in the California Superior Court in the County of Los Angeles, entitled *Maria Eugenia Saenz Valiente v. Big 5 Sporting Goods Corporation*, et al., Case No. BC455049; (2) on February 22, 2011, a complaint filed in the California Superior Court in the County of Los Angeles, entitled *Scott Mossler v. Big 5 Sporting Goods Corporation*, et al., Case No. BC455477; (3) on February 28, 2011, a complaint filed in the California Superior Court in the County of Los Angeles, entitled *Yelena Matatova v. Big 5 Sporting Goods Corporation*, et al., Case No. BC455459; (4) on March 8, 2011, a complaint filed in the California Superior Court in the County of Los Angeles, entitled *Neal T. Wiener v. Big 5 Sporting Goods Corporation*, et al., Case No. BC456300; (5) on March 22, 2011, a complaint filed in the California Superior Court in the County of San Francisco, entitled *Donna Motta v. Big 5 Sporting Goods Corporation*, et al., Case No. CGC-11-509228; (6) on March 30, 2011, a complaint filed in the California Superior Court in the County of Alameda, entitled *Steve Holmes v. Big 5 Sporting Goods Corporation*, et al., Case No. RG11563123; (7) on March 30, 2011, a complaint filed in the California Superior Court in the County of San Francisco, entitled *Robin Nelson v. Big 5 Sporting Goods Corporation*, et al., Case No. CGC-11-508829; (8) on April 8, 2011, a complaint filed in the California Superior Court in the County of San Joaquin, entitled *Pamela B. Smith v. Big 5 Sporting Goods Corporation*, et al., Case No. 39-2011-00261014-CU-BT-STK; and (9) on May 31, 2011, a complaint filed in the California Superior Court in the County of Los Angeles, entitled *Deena Gabriel v. Big 5 Sporting Goods Corporation*, et al., Case No. BC462213. On June 16, 2011, the Judicial Council of California issued an Order Assigning Coordination Trial Judge designating the California Superior Court in the County of Los Angeles as having jurisdiction to coordinate and to hear all nine of the cases as Case No. JCCP4667. On October 21, 2011, the plaintiffs collectively filed a Consolidated Amended Complaint, alleging violations of the California Civil Code, negligence, invasion of privacy and unlawful intrusion. The plaintiffs allege, among other things, that customers making purchases with credit cards at the Company's stores in California were improperly requested to provide their zip code at the time of such purchases. The plaintiffs seek, on behalf of the class members, the following: statutory penalties; attorneys' fees; expenses; restitution of property; disgorgement of profits; and injunctive relief. In an effort to negotiate a settlement of this litigation, the Company and plaintiffs engaged in Mandatory Settlement Conferences conducted by the court on February 6, 2013, February 19, 2013, April 2, 2013, September 12, 2013, and September 20, 2013, and also engaged in mediation conducted by a third party mediator on July 15, 2013. As a result of the foregoing, the parties agreed to settle the lawsuit. On March 23, 2014, the court granted preliminary approval of the settlement. The court has scheduled a hearing for October 1, 2014, to consider granting final approval of the settlement. Under the terms of the settlement, the Company agreed that class members who submit valid and timely claim forms will receive either a $25 gift card (with proof of purchase) or a $10 merchandise voucher (without proof of purchase). Additionally, the Company agreed to pay plaintiff's attorneys' fees and costs awarded by the court, enhancement payments to the class representatives and claims

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(continued)

administrator's fees. Under the settlement, if the total amount paid by the Company for the class payout, class representative enhancement payments and claims administrator's fees is less than $1.0 million, then the Company will issue merchandise vouchers to a charity for the balance of the deficiency in the manner provided in the settlement agreement. The Company's estimated total cost pursuant to this settlement is reflected in a legal settlement accrual recorded in the third quarter of fiscal 2013. The Company admitted no liability or wrongdoing with respect to the claims set forth in the lawsuit. Once final approval is granted, the settlement will constitute a full and complete settlement and release of all claims related to the lawsuit. Based on the terms of the settlement agreement, the Company currently believes that settlement of this litigation will not have a material negative impact on the Company's results of operations or financial condition. However, if the settlement is not finally approved by the court, the Company intends to defend this litigation vigorously. If the settlement is not finally approved by the court and this litigation is settled or resolved unfavorably to the Company, this litigation and the costs of defending it could have a material negative impact on the Company's results of operations or financial condition.

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

(10) Share-based Compensation

At its discretion, the Company grants share option awards, nonvested share awards and nonvested share unit awards to certain employees, as defined by ASC 718, *Compensation—Stock Compensation*, under the Company's 2007 Equity and Performance Incentive Plan, as amended and restated on June 14, 2011 (the "Plan"), and accounts for its share-based compensation in accordance with ASC 718. The Company recognized $0.5 million and $1.0 million in share-based compensation expense for the 13 weeks and 26 weeks ended June 29, 2014, respectively, compared to $0.5 million and $0.9 million in share-based compensation expense for the 13 weeks and 26 weeks ended June 30, 2013, respectively.

Share Option Awards

Share option awards granted by the Company generally vest and become exercisable in four equal annual installments of 25% per year with a maximum life of ten years. The exercise price of share option awards is equal to the quoted market price of the Company's common stock on the date of grant. In the 26 weeks ended June 29, 2014 and June 30, 2013, the Company granted 18,000 and 30,500 share option awards, respectively. The weighted-average grant-date fair value per option for share option awards granted in the 26 weeks ended June 29, 2014 and June 30, 2013 was $4.80 and $8.37, respectively.

BIG 5 SPORTING GOODS CORPORATION
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(continued)

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

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (In Years)	Aggregate Intrinsic Value
Outstanding at December 29, 2013	989,130	$ 17.83		
Granted	18,000	11.93		
Exercised	(8,925)	6.20		
Forfeited or Expired	(218,400)	24.58		
Outstanding at June 29, 2014	779,805	$ 15.94	3.30	$1,439,518
Exercisable at June 29, 2014	711,180	$ 16.31	2.80	$1,297,960
Vested and Expected to Vest at June 29, 2014	778,869	$ 15.94	3.30	$1,438,602

The aggregate intrinsic value in the preceding table represents the total pre-tax intrinsic value, based upon the Company's closing stock price of $12.26 as of June 29, 2014, which would have been received by the share option award holders had all share option award holders exercised their share option awards as of that date.

The total intrinsic value of share option awards exercised for the 26 weeks ended June 29, 2014 and June 30, 2013 was approximately $0.1 million and $3.9 million, respectively. The total cash received from employees as a result of employee share option award exercises for the 26 weeks ended June 29, 2014 and June 30, 2013 was approximately $55,000 and $3.4 million, respectively. The actual tax benefit realized for the tax deduction from share option award exercises of share-based compensation awards in the 26 weeks ended June 29, 2014 and June 30, 2013 totaled $41,000 and $1.5 million, respectively.

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

	13 Weeks Ended		26 Weeks Ended	
	June 29, 2014	June 30, 2013	June 29, 2014	June 30, 2013
Risk-free interest rate	1.8%	1.4%	1.8%	1.4%
Expected term	5.8 years	6.9 years	5.8 years	6.9 years
Expected volatility	57.0%	57.0%	57.0%	57.0%
Expected dividend yield	3.3%	2.2%	3.3%	2.3%

The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected term of the option award; the expected term represents the weighted-average period of time that option awards granted are expected to be

BIG 5 SPORTING GOODS CORPORATION
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outstanding giving consideration to vesting schedules and historical participant exercise behavior; the expected volatility is based upon historical volatility of the Company's common stock; and the expected dividend yield is based upon the Company's current dividend rate and future expectations.

As of June 29, 2014, there was $0.3 million of total unrecognized compensation expense related to nonvested share option awards granted. That expense is expected to be recognized over a weighted-average period of 2.5 years.

Nonvested Share Awards and Nonvested Share Unit Awards

Nonvested share awards and nonvested share unit awards granted by the Company vest from the date of grant in four equal annual installments of 25% per year. Nonvested share awards are delivered to the recipient upon their vesting. With respect to nonvested share unit awards, vested shares will be delivered to the recipient on the tenth business day of January following the year in which the recipient's service to the Company is terminated. The total fair value of nonvested share awards which vested during the 26 weeks ended June 29, 2014 and June 30, 2013 was $2.1 million and $1.8 million, respectively. The total fair value of nonvested share unit awards which vested during the 26 weeks ended June 29, 2014 and June 30, 2013 was $0.1 million and $38,000, respectively.

The Company granted 152,920 and 127,020 nonvested share awards in the 26 weeks ended June 29, 2014 and June 30, 2013, respectively. The weighted-average grant-date fair value per share of the Company's nonvested share awards granted in the 26 weeks ended June 29, 2014 and June 30, 2013 was $15.14 and $15.56, respectively.

The following table details the Company's nonvested share awards activity for the 26 weeks ended June 29, 2014:

	Shares	Weighted-Average Grant-Date Fair Value
Balance as of December 29, 2013	333,770	$ 12.38
Granted	152,920	15.14
Vested	(137,615)	12.67
Forfeited	(7,395)	13.52
Balance as of June 29, 2014	341,680	$ 13.47

To satisfy employee minimum statutory tax withholding requirements for nonvested share awards that vest, the Company withholds and retires a portion of the vesting common shares, unless an employee elects to pay cash. In the 26 weeks ended June 29, 2014, the Company withheld 52,927 common shares with a total value of $0.8 million. This amount is presented as a cash outflow from financing activities in the accompanying interim unaudited condensed consolidated statement of cash flows.

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In the 26 weeks ended June 29, 2014 and June 30, 2013, the Company granted 12,000 and 12,000 nonvested share unit awards, respectively. The weighted-average grant-date fair value per share of the Company's nonvested share unit awards granted in the 26 weeks ended June 29, 2014 and June 30, 2013 was $11.93 and $20.29, respectively. The weighted-average grant-date fair value of nonvested share awards and nonvested share unit awards is the quoted market price of the Company's common stock on the date of grant.

As of June 29, 2014, there was $3.9 million and $0.4 million of total unrecognized compensation expense related to nonvested share awards and nonvested share unit awards, respectively. That expense is expected to be recognized over a weighted-average period of 2.8 years and 3.0 years for nonvested share awards and nonvested share unit awards, respectively.

(11) Subsequent Event

In the third quarter of fiscal 2014, the Company's Board of Directors declared a quarterly cash dividend of $0.10 per share of outstanding common stock, which will be paid on September 15, 2014 to stockholders of record as of August 29, 2014.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the accompanying condensed consolidated balance sheet of Big 5 Sporting Goods Corporation and subsidiaries (the "Corporation") as of June 29, 2014, and the related condensed consolidated statements of operations for the 13 and 26 weeks ended June 29, 2014 and June 30, 2013, and of stockholders' equity and cash flows for the 26 weeks ended June 29, 2014 and June 30, 2013. These interim financial statements are the responsibility of the Corporation's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Big 5 Sporting Goods Corporation and subsidiaries as of December 29, 2013, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 26, 2014, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 29, 2013 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Deloitte & Touche LLP

Los Angeles, California
July 30, 2014

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

The following discussion and analysis of the Big 5 Sporting Goods Corporation ("we," "our," "us") financial condition and results of operations includes information with respect to our plans and strategies for our business and should be read in conjunction with our interim unaudited condensed consolidated financial statements and related notes ("Interim Financial Statements") included herein and our consolidated financial statements and related notes, and *Management's Discussion and Analysis of Financial Condition and Results of Operations* contained in our Annual Report on Form 10-K for the fiscal year ended December 29, 2013.

Overview

We are a leading sporting goods retailer in the western United States, operating 427 stores in 12 states under the name "Big 5 Sporting Goods" as of June 29, 2014. We provide a full-line product offering in a traditional sporting goods store format that averages approximately 11,000 square feet. Our product mix includes athletic shoes, apparel and accessories, as well as a broad selection of outdoor and athletic equipment for team sports, fitness, camping, hunting, fishing, tennis, golf, winter and summer recreation and roller sports.

Executive Summary

Our weaker operating results for the second quarter of fiscal 2014 compared to the second quarter of fiscal 2013 were mainly attributable to our lower sales levels, including a decrease in same store sales of 4.9%. Our lower same store sales in the second quarter of fiscal 2014 compared to the same period last year primarily reflected reduced demand for firearms, ammunition and related products as well as softness in our overall consumer environment.

- Net sales for the second quarter of fiscal 2014 decreased 3.6% to $231.2 million compared to $239.9 million for the second quarter of fiscal 2013. The decrease in net sales was primarily attributable to a decrease in same store sales of 4.9% as well as a reduction in closed store sales, partially offset by added sales from new stores. Net sales comparisons year over year reflect a small unfavorable impact from the calendar shift of the Easter holiday, during which our stores are closed, out of the first quarter and into the second quarter of this year.
- Net income for the second quarter of fiscal 2014 decreased to $2.5 million, or $0.11 per diluted share, compared to $6.1 million, or $0.28 per diluted share, for the second quarter of fiscal 2013. The decrease in net income was driven primarily by lower net sales and merchandise margins resulting in lower gross profit, as well as an increase in selling and administrative expense.
- Gross profit for the second quarter of fiscal 2014 represented 32.7% of net sales, compared with 33.2% in the same quarter of the prior year. The decrease in gross profit margin resulted mainly from a year over year decrease in merchandise margins of 19 basis points and increased store occupancy expense as a percentage of net sales.

- Selling and administrative expense for the second quarter of fiscal 2014 increased 2.8% to $71.1 million, or 30.8% of net sales, compared to $69.2 million, or 28.8% of net sales, for the second quarter of fiscal 2013. The increase in selling and administrative expense was primarily attributable to higher employee labor and benefit-related expense, higher store-related expense to support the increase in store count and an impairment charge as discussed in the *Results of Operations* section below.
- Operating income for the second quarter of fiscal 2014 decreased to $4.4 million, or 1.9% of net sales, compared to $10.5 million, or 4.4% of net sales, for the second quarter of fiscal 2013. The decrease in operating income primarily reflected lower net sales and merchandise margins resulting in lower gross profit, as well as an increase in selling and administrative expense.

Results of Operations

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

13 Weeks Ended June 29, 2014 Compared to 13 Weeks Ended June 30, 2013

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

	13 Weeks Ended			
	June 29, 2014		June 30, 2013	
	(In thousands, except percentages)			
Net sales	$231,150	100.0%	$239,899	100.0%
Cost of sales (1)	155,577	67.3	160,226	66.8
Gross profit	75,573	32.7	79,673	33.2
Selling and administrative expense (2)	71,146	30.8	69,180	28.8
Operating income	4,427	1.9	10,493	4.4
Interest expense	371	0.2	418	0.2
Income before income taxes	4,056	1.7	10,075	4.2
Income taxes	1,521	0.6	3,971	1.7
Net income	$ 2,535	1.1%	$ 6,104	2.5%

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

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

Net Sales. Net sales decreased by $8.7 million, or 3.6%, to $231.2 million in the 13 weeks ended June 29, 2014 from $239.9 million in the comparable period last year. The change in net sales reflected the following:

- Same store sales decreased by $11.5 million, or 4.9%, for the 13 weeks ended June 29, 2014, versus the comparable 13-week period in the prior year. Our lower same store sales compared to the same period last year primarily reflected reduced demand for firearms, ammunition and related products as well as softness in our overall consumer environment. Same store sales for a period reflect net sales from stores that operated throughout the period as well as the full corresponding prior year period.
- Added sales from new stores reflected the opening of 18 new stores since March 31, 2013, partially offset by a reduction in closed store sales.
- We experienced decreased customer transactions in our retail stores, and the average sale per transaction declined slightly in the second quarter of fiscal 2014 compared to the same period last year.
- Net sales comparisons year over year reflect a small unfavorable impact from the calendar shift of the Easter holiday, during which our stores are closed, out of the first quarter and into the second quarter of this year.

Store count as of June 29, 2014 was 427 versus 416 as of June 30, 2013. We opened two new stores in the 13 weeks ended June 29, 2014. We opened two new stores, one of which was a relocation, in the 13 weeks ended June 30, 2013. For fiscal 2014, we expect to open approximately 12 net new stores.

Gross Profit. Gross profit decreased by $4.1 million, or 5.1%, to $75.6 million, or 32.7% of net sales, in the 13 weeks ended June 29, 2014 from $79.7 million, or 33.2% of net sales, in the 13 weeks ended June 30, 2013. The change in gross profit was primarily attributable to the following:

- Net sales decreased $8.7 million, or 3.6%, year over year in the second quarter of fiscal 2014.
- Merchandise margins, which exclude buying, occupancy and distribution expense, decreased 19 basis points versus the second quarter last year.
- Store occupancy expense increased by $1.2 million, or 85 basis points, year over year in the second quarter of fiscal 2014 due primarily to the increase in store count.
- Distribution expense decreased $1.5 million, or 52 basis points, resulting primarily from higher costs capitalized into inventory, partially offset by higher employee labor and benefit-related expense and higher trucking expense.

Selling and Administrative Expense. Selling and administrative expense increased by $1.9 million to $71.1 million, or 30.8% of net sales, in the 13 weeks ended June 29, 2014 from $69.2 million, or 28.8% of net sales, in the same period last year. The year-over-year increase in selling and administrative expense as a percentage of net sales reflects lower net sales along with higher expense. The increase in overall selling and administrative expense compared to the prior year was primarily attributable to higher employee labor and benefit-related expense, higher operating expense to support the increase in store count and added costs related to our new e-commerce initiative. We also recorded a pre-tax non-cash impairment charge of $0.8 million related to certain underperforming stores, as discussed in Note 3 to the Interim Financial Statements included in Part I, Item 1, *Financial Statements*, of this Quarterly Report on Form 10-Q.

Interest Expense. Interest expense remained flat at $0.4 million in the 13 weeks ended June 29, 2014 compared to the second quarter of fiscal 2013. Interest expense reflected a decrease in average interest rates of 20 basis points to 1.8% in the second quarter of fiscal 2014 from 2.0% in the prior year. The impact of lower average interest rates was offset by an increase in average debt levels of $24.5 million to $62.2 million in the second quarter of fiscal 2014 from $37.7 million in the same period last year.

Income Taxes. The provision for income taxes was $1.5 million for the 13 weeks ended June 29, 2014 and $4.0 million for the 13 weeks ended June 30, 2013. Our effective tax rate was 37.5% for the second quarter of fiscal 2014 compared with 39.4% for the second quarter of fiscal 2013. The decreased effective tax rate for the second quarter of fiscal 2014 compared to the same period in fiscal 2013 primarily reflected income tax credits representing a larger percentage of pre-tax income for the current year.

26 Weeks Ended June 29, 2014 Compared to 26 Weeks Ended June 30, 2013

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

	26 Weeks Ended			
	June 29, 2014		June 30, 2013	
	(In thousands, except percentages)			
Net sales	$462,413	100.0%	$486,165	100.0%
Cost of sales (1)	314,162	67.9	326,017	67.1
Gross profit	148,251	32.1	160,148	32.9
Selling and administrative expense (2)	140,050	30.3	137,108	28.2
Operating income	8,201	1.8	23,040	4.7
Interest expense	805	0.2	871	0.2
Income before income taxes	7,396	1.6	22,169	4.5
Income taxes	2,801	0.6	8,551	1.7
Net income	$ 4,595	1.0%	$ 13,618	2.8%

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

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

Net Sales. Net sales decreased by $23.8 million, or 4.9%, to $462.4 million in the 26 weeks ended June 29, 2014 from $486.2 million in the comparable period last year. The change in net sales reflected the following:

- Same store sales decreased by $30.4 million, or 6.4%, for the 26 weeks ended June 29, 2014, versus the comparable 26-week period in the prior year. Our lower same store sales compared to the same period last year reflected reduced demand for firearms, ammunition and related products as well as softness in our overall consumer environment, combined with lower sales of winter-related merchandise as a result of unseasonably warm and dry winter-weather conditions in our primary markets in the first quarter of fiscal 2014. Same store sales for a period reflect net sales from stores that operated throughout the period as well as the full corresponding prior year period.
- Added sales from new stores reflected the opening of 19 new stores since December 30, 2012, partially offset by a reduction in closed store sales.
- We experienced decreased customer transactions in our retail stores, and the average sale per transaction also declined in the first half of fiscal 2014 compared to the same period last year.

Store count as of June 29, 2014 was 427 versus 416 as of June 30, 2013. We opened two new stores and closed four stores, two of which were relocations, in the 26 weeks ended June 29, 2014. We opened three new stores, one of which was a relocation, and closed one store, which was a relocation, in the 26 weeks ended June 30, 2013. For fiscal 2014, we expect to open approximately 12 net new stores.

Gross Profit. Gross profit decreased by $11.8 million, or 7.4%, to $148.3 million, or 32.1% of net sales, in the 26 weeks ended June 29, 2014 from $160.1 million, or 32.9% of net sales, in the 26 weeks ended June 30, 2013. The change in gross profit was primarily attributable to the following:

- Net sales decreased $23.8 million, or 4.9%, year over year in the first half of fiscal 2014.
- Merchandise margins, which exclude buying, occupancy and distribution expense, decreased 24 basis points versus the first half of last year, when merchandise margins increased 73 basis points versus the first half of fiscal 2012.
- Store occupancy expense increased by $2.6 million, or 98 basis points, year over year in the first half of fiscal 2014 due primarily to the increase in store count.
- Distribution expense decreased $2.5 million, or 35 basis points, resulting primarily from higher costs capitalized into inventory, partially offset by higher employee labor and benefit-related expense and higher trucking expense.

Selling and Administrative Expense. Selling and administrative expense increased by $2.9 million to $140.0 million, or 30.3% of net sales, in the 26 weeks ended June 29, 2014 from $137.1 million, or 28.2% of net sales, in the same period last year. The year-over-year increase in selling and administrative expense as a percentage of net sales reflects lower net sales along with higher expense. The increase in overall selling and administrative expense compared to the prior year was primarily attributable to higher employee labor and benefit-related expense, higher operating expense to support the increase in store count and added costs related to our new e-commerce initiative. We also recorded a pre-tax non-cash impairment charge of $0.8 million related to certain underperforming stores, as discussed in Note 3 to the Interim Financial Statements included in Part I, Item 1, *Financial Statements*, of this Quarterly Report on Form 10-Q.

Interest Expense. Interest expense decreased by $0.1 million to $0.8 million in the 26 weeks ended June 29, 2014 compared to the same period last year. Interest expense reflected a decrease in average interest rates of 30 basis points to 1.9% in the first half of fiscal 2014 from 2.2% in the prior year. The impact of lower average interest rates was partially offset by an increase in average debt levels of $19.0 million to $58.7 million in the first half of fiscal 2014 from $39.7 million in the same period last year.

Income Taxes. The provision for income taxes was $2.8 million for the 26 weeks ended June 29, 2014 and $8.6 million for the 26 weeks ended June 30, 2013. Our effective tax rate was 37.9% for the first half of fiscal 2014 compared with 38.6% for the first half of fiscal 2013. The decreased effective tax rate for the first half of fiscal 2014 compared to the same period in fiscal 2013 primarily reflected income tax credits representing a larger percentage of pre-tax income for the current year. The effective rate for the first half of fiscal 2013 included the retroactive reinstatement of the work opportunity tax credit (“WOTC”) for 2012, which resulted from enactment of The American Taxpayer Relief Act of 2012. Reinstatement of the WOTC reduced the effective tax rate for the first quarter of fiscal 2013 by 137 basis points.

Liquidity and Capital Resources

Our principal liquidity requirements are for working capital, capital expenditures and cash dividends. We fund our liquidity requirements primarily through cash on hand, cash flows from operations and borrowings from our revolving credit facility. We believe our cash on hand, future cash flows from operations and borrowings from our revolving credit facility will be sufficient to fund our cash requirements for at least the next 12 months.

We ended the first half of fiscal 2014 with $6.2 million of cash compared with $5.9 million at the end of the same period in fiscal 2013. Our cash flows from operating, investing and financing activities are summarized as follows:

	26 Weeks Ended	
	June 29, 2014	June 30, 2013
	(In thousands)	
Net cash (used in) provided by:		
Operating activities	$(2,204)	$10,408
Investing activities	(8,685)	(6,740)
Financing activities	7,719	(5,400)
Net decrease in cash	$(3,170)	$ (1,732)

Operating Activities. Net cash used in operating activities for the 26 weeks ended June 29, 2014 was $2.2 million and net cash provided by operating activities for the 26 weeks ended June 30, 2013 was $10.4 million. The decrease in cash flow from operating activities for the 26 weeks ended June 29, 2014 compared to the same period last year primarily reflects lower net income for the period and increased prepaid expenses related mainly to the timing of rent payments and the prepayment of income taxes, partially offset by decreases in credit card receivables.

Investing Activities. Net cash used in investing activities for the 26 weeks ended June 29, 2014 and June 30, 2013 was $8.7 million and $6.7 million, respectively. Capital expenditures, excluding non-cash property and equipment acquisitions, represented substantially all of the cash used in investing activities for both periods. The higher capital expenditures in the current year primarily reflect software purchases related to the development of a new point-of-sale system, costs related to the development of an e-commerce platform and increased investment in existing store remodeling.

Financing Activities. Net cash provided by financing activities for the 26 weeks ended June 29, 2014 was $7.7 million and net cash used in financing activities for the 26 weeks ended June 30, 2013 was $5.4 million. In the first half of fiscal 2014, net cash was provided primarily from increased borrowings under our revolving credit facility, partially offset by dividend payments and treasury stock repurchases. In the first half of fiscal 2013, net cash was used primarily to pay down borrowings under our revolving credit facility and pay dividends, partially offset by proceeds received from the exercise of employee share option awards.

As of June 29, 2014, we had revolving credit borrowings of $68.2 million and letter of credit commitments of $0.6 million outstanding. These balances compare to revolving credit borrowings of $43.0 million and letter of credit commitments of $0.9 million outstanding as of December 29, 2013 and revolving credit borrowings of $44.9 million and letter of credit commitments of $4.0 million outstanding as of June 30, 2013. The increase in revolving credit borrowings as of the end of the first half of fiscal 2014 compared to the same period last year primarily reflects higher inventory levels as a result of lower-than-anticipated sales as well as increased funding of other working capital.

In fiscal 2013 and the first half of fiscal 2014, we paid quarterly cash dividends of $0.10 per share of outstanding common stock, for an annual rate of $0.40 per share. In the third quarter of fiscal 2014, our Board of Directors declared a quarterly cash dividend of $0.10 per share of outstanding common stock, which will be paid on September 15, 2014 to stockholders of record as of August 29, 2014.

Periodically, we repurchase our common stock in the open market pursuant to programs approved by our Board of Directors. We may repurchase our common stock for a variety of reasons, including, among other things, our existing business conditions, our alternative cash requirements and the current market price of our stock. In fiscal 2013, we did not repurchase any shares of our common stock. In the first half of fiscal 2014, we repurchased 91,524 shares of common stock for $1.2 million. Since the inception of our initial share repurchase program in May 2006 through June 29, 2014, we have repurchased a total of 2,019,150 shares for $26.6 million, leaving a total of $8.4 million available for share repurchases under our current share repurchase program.

Credit Agreement. On October 18, 2010, we entered into a credit agreement with Wells Fargo Bank, National Association ("Wells Fargo"), as administrative agent, and a syndicate of other lenders, which was amended on October 31, 2011 and December 19, 2013 (as so amended, the "Credit Agreement") as further discussed below. The maturity date of the Credit Agreement is December 19, 2018.

The Credit Agreement provides for a revolving credit facility (the "Credit Facility") with an aggregate committed availability of up to $140.0 million, which amount may be increased at our option up to a maximum of $165.0 million. We may also request additional increases in aggregate availability, up to a maximum of $200.0 million, in which case the existing lenders under the Credit Agreement will have the option to increase their commitments to accommodate the requested increase. If such existing lenders do not exercise that option, we may (with the consent of Wells Fargo, not to be unreasonably withheld) seek other lenders willing to provide such commitments. The Credit Facility includes a $50.0 million sublimit for issuances of letters of credit and a $20.0 million sublimit for swingline loans. Total remaining borrowing availability under the Credit Agreement, after subtracting letters of credit, was $71.2 million and $96.1 million as of June 29, 2014 and December 29, 2013, respectively.

We may borrow under the Credit Facility from time to time, provided the amounts outstanding will not exceed the lesser of the then aggregate availability (as discussed above) and the Borrowing Base (such lesser amount being referred to as the "Loan Cap"). After giving effect to the amendments, the "Borrowing Base" generally is comprised of the sum, at the time of calculation of (a) 90.00% of our eligible credit card receivables; plus (b) the cost of our eligible inventory (other than our eligible in-transit inventory), net of inventory reserves, multiplied by 90.00% of the appraised net orderly liquidation value of eligible inventory (expressed as a percentage of the cost of eligible inventory); plus (c) the lesser of (i) the cost of our eligible in-transit inventory, net of inventory reserves, multiplied by 90.00% of the appraised net orderly liquidation value of our eligible in-transit inventory (expressed as a percentage of the cost of eligible in-transit inventory), or (ii) $10.0 million, minus (d) certain reserves established by Wells Fargo in its role as the Administrative Agent in its reasonable discretion.

Generally, we may designate specific borrowings under the Credit Facility as either base rate loans or LIBO rate loans. Following the most recent amendment of the Credit Agreement on December 19, 2013 (the "Second Amendment"), the applicable interest rate on our borrowings will be a function of the daily average, over the preceding fiscal quarter, of the excess of the Loan Cap over amounts borrowed (such amount being referred to as the "Average Daily Excess Availability"). Those loans designated as LIBO rate loans shall bear interest at a rate equal to the then applicable LIBO rate plus an applicable margin as shown in the table below. Those loans designated as base rate loans shall bear interest at a rate equal to the applicable margin for base rate loans (as shown below) plus the highest of (a) the Federal funds rate, as in effect from time to time, plus one-half of one percent (0.50%), (b) the LIBO rate, as adjusted to account for statutory reserves, plus one percent (1.00%), or (c) the rate of interest in effect for such day as publicly announced from time to time by Wells Fargo as its "prime rate." The applicable margin for all loans will be as set forth below as a function of Average Daily Excess Availability for the preceding fiscal quarter.

Level	Average Daily Excess Availability	LIBO Rate Applicable Margin	Base Rate Applicable Margin
I	Greater than or equal to $100,000,000	1.25%	0.25%
II	Less than $100,000,000 but greater than or equal to $40,000,000	1.50%	0.50%
III	Less than $40,000,000	1.75%	0.75%

Following the Second Amendment, the commitment fee assessed on the unused portion of the Credit Facility is 0.25% per annum.

Obligations under the Credit Facility are secured by a general lien and perfected security interest in substantially all of our assets. Our Credit Agreement contains covenants that require us to maintain a fixed charge coverage ratio of not less than 1.0:1.0 in certain circumstances, and limit our ability to, among other things, incur liens, incur additional indebtedness, transfer or dispose of assets, change the nature of the business, guarantee obligations, pay dividends or make other distributions or repurchase stock, and make advances, loans or investments. We may declare or pay cash dividends or repurchase stock only if, among other things, no default or event of default then exists or would arise from such dividend or repurchase of stock and, after giving effect to such dividend or repurchase, certain availability and/or fixed charge coverage ratio requirements are satisfied. The Credit Agreement contains customary events of default, including, without limitation, failure to pay when due principal amounts with respect to the Credit Facility, failure to pay any interest or other amounts under the Credit Facility for five days after becoming due, failure to comply with certain agreements or covenants contained in the Credit Agreement, failure to satisfy certain judgments against us, failure to pay when due (or any other default which does or may lead to the acceleration of) certain other material indebtedness in principal amount in excess of $5.0 million, and certain insolvency and bankruptcy events.

Future Capital Requirements. We had cash on hand of $6.2 million as of June 29, 2014. We expect capital expenditures for fiscal 2014, excluding non-cash acquisitions, to range from approximately $25.0 million to $29.0 million, primarily to fund the opening of new stores, store-related remodeling, distribution center equipment and computer hardware and software purchases, including amounts related to the planned development of an e-commerce platform. For fiscal 2014, we expect to open approximately 12 net new stores.

We currently pay quarterly dividends, subject to declaration by our Board of Directors. In the third quarter of fiscal 2014, our Board of Directors declared a quarterly cash dividend of $0.10 per share of outstanding common stock, which will be paid on September 15, 2014 to stockholders of record as of August 29, 2014.

As of June 29, 2014, a total of $8.4 million remained available for share repurchases under our share repurchase program. We consider several factors in determining when and if we make share repurchases including, among other things, our existing business conditions, our alternative cash requirements and the market price of our stock.

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

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

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

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

Issued and outstanding letters of credit were $0.6 million as of June 29, 2014, and were related primarily to securing insurance program liabilities.

Included in the *Liquidity and Capital Resources* section of Part II, Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, of our Annual Report on Form 10-K for the fiscal year ended December 29, 2013, is a discussion of our future obligations and commitments as of December 29, 2013. In the 26 weeks ended June 29, 2014, our revolving credit borrowings increased by $25.2 million from the end of fiscal 2013. We entered into new operating lease agreements in relation to our business operations during the 26 weeks ended June 29, 2014. We do not believe that these operating leases or the increase in our revolving credit borrowings materially impact our contractual obligations or commitments presented as of December 29, 2013.

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

Critical Accounting Estimates

As discussed in Part II, Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, of our Annual Report on Form 10-K for the fiscal year ended December 29, 2013, we consider our estimates on inventory valuation, long-lived assets and self-insurance liabilities to be the most critical in understanding the judgments that are involved in preparing our consolidated financial statements. There have been no significant changes to these estimates in the 26 weeks ended June 29, 2014.

Seasonality and Impact of Inflation

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

In fiscal 2013 and continuing into the first half of fiscal 2014, we experienced minor inflation in the purchase cost, including transportation expense, of certain products. We continue to evolve our product mix to include more branded merchandise that we believe gives us added flexibility to adjust selling prices for purchase cost increases. If we are unable to adjust our selling prices for purchase cost increases then our merchandise margins will decline, which will adversely impact our operating results. We do not believe that inflation had a material impact on our operating results for the reporting periods.

Recently Issued Accounting Updates

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

Forward-Looking Statements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are subject to risks resulting from interest rate fluctuations since interest on our borrowings under our Credit Facility is based on variable rates. We enter into borrowings under our Credit Facility principally for working capital, capital expenditures and general corporate purposes. We routinely evaluate the best use of our cash on hand and manage financial statement exposure to interest rate fluctuations by managing our level of indebtedness and the interest base rate options on such indebtedness. We do not utilize derivative instruments and do not engage in foreign currency transactions or hedging activities to manage our interest rate risk. If the interest rate on our debt was to change 1.0% as compared to the rate as of June 29, 2014, our interest expense would change approximately $0.7 million on an annual basis based on the outstanding balance of borrowings under our Credit Facility as of June 29, 2014.

Inflationary factors and changes in foreign currency rates can increase the purchase cost of our products. We are evolving our product mix to include more branded merchandise that we believe will give us added flexibility to adjust selling prices for purchase cost increases. If we are unable to adjust our selling prices for purchase cost increases then our merchandise margins will decline, which will adversely impact our operating results. All of our stores are located in the United States, and all imported merchandise is purchased in U.S. dollars. We do not believe that inflation had a material impact on our operating results for the reporting periods.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

During the fiscal quarter ended June 29, 2014, no changes occurred with respect to our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company was served on the following dates with the following nine complaints, each of which was brought as a purported class action on behalf of persons who made purchases at the Company's stores in California using credit cards and were requested or required to provide personal identification information at the time of the transaction: (1) on February 22, 2011, a complaint filed in the California Superior Court in the County of Los Angeles, entitled *Maria Eugenia Saenz Valiente v. Big 5 Sporting Goods Corporation*, et al., Case No. BC455049; (2) on February 22, 2011, a complaint filed in the California Superior Court in the County of Los Angeles, entitled *Scott Mossler v. Big 5 Sporting Goods Corporation*, et al., Case No. BC455477; (3) on February 28, 2011, a complaint filed in the California Superior Court in the County of Los Angeles, entitled *Yelena Matatova v. Big 5 Sporting Goods Corporation*, et al., Case No. BC455459; (4) on March 8, 2011, a complaint filed in the California Superior Court in the County of Los Angeles, entitled *Neal T. Wiener v. Big 5 Sporting Goods Corporation*, et al., Case No. BC456300; (5) on March 22, 2011, a complaint filed in the California Superior Court in the County of San Francisco, entitled *Donna Motta v. Big 5 Sporting Goods Corporation*, et al., Case No. CGC-11-509228; (6) on March 30, 2011, a complaint filed in the California Superior Court in the County of Alameda, entitled *Steve Holmes v. Big 5 Sporting Goods Corporation*, et al., Case No. RG11563123; (7) on March 30, 2011, a complaint filed in the California Superior Court in the County of San Francisco, entitled *Robin Nelson v. Big 5 Sporting Goods Corporation*, et al., Case No. CGC-11-508829; (8) on April 8, 2011, a complaint filed in the California Superior Court in the County of San Joaquin, entitled *Pamela B. Smith v. Big 5 Sporting Goods Corporation*, et al., Case No. 39-2011-00261014-CU-BT-STK; and (9) on May 31, 2011, a complaint filed in the California Superior Court in the County of Los Angeles, entitled *Deena Gabriel v. Big 5 Sporting Goods Corporation*, et al., Case No. BC462213. On June 16, 2011, the Judicial Council of California issued an Order Assigning Coordination Trial Judge designating the California Superior Court in the County of Los Angeles as having jurisdiction to coordinate and to hear all nine of the cases as Case No. JCCP4667. On October 21, 2011, the plaintiffs collectively filed a Consolidated Amended Complaint, alleging violations of the California Civil Code, negligence, invasion of privacy and unlawful intrusion. The plaintiffs allege, among other things, that customers making purchases with credit cards at the Company's stores in California were improperly requested to provide their zip code at the time of such purchases. The plaintiffs seek, on behalf of the class members, the following: statutory penalties; attorneys' fees; expenses; restitution of property; disgorgement of profits; and injunctive relief. In an effort to negotiate a settlement of this litigation, the Company and plaintiffs engaged in Mandatory Settlement Conferences conducted by the court on February 6, 2013, February 19, 2013, April 2, 2013, September 12, 2013, and September 20, 2013, and also engaged in mediation conducted by a third party mediator on July 15, 2013. As a result of the foregoing, the parties agreed to settle the lawsuit. On March 23, 2014, the court granted preliminary approval of the settlement. The court has scheduled a hearing for October 1, 2014, to consider granting final approval of the settlement. Under the terms of the settlement, the Company agreed that class members who submit valid and timely claim forms will receive either a $25 gift card (with proof of purchase) or a $10 merchandise voucher (without proof of purchase). Additionally, the

Company agreed to pay plaintiff's attorneys' fees and costs awarded by the court, enhancement payments to the class representatives and claims administrator's fees. Under the settlement, if the total amount paid by the Company for the class payout, class representative enhancement payments and claims administrator's fees is less than $1.0 million, then the Company will issue merchandise vouchers to a charity for the balance of the deficiency in the manner provided in the settlement agreement. The Company's estimated total cost pursuant to this settlement is reflected in a legal settlement accrual recorded in the third quarter of fiscal 2013. The Company admitted no liability or wrongdoing with respect to the claims set forth in the lawsuit. Once final approval is granted, the settlement will constitute a full and complete settlement and release of all claims related to the lawsuit. Based on the terms of the settlement agreement, the Company currently believes that settlement of this litigation will not have a material negative impact on the Company's results of operations or financial condition. However, if the settlement is not finally approved by the court, the Company intends to defend this litigation vigorously. If the settlement is not finally approved by the court and this litigation is settled or resolved unfavorably to the Company, this litigation and the costs of defending it could have a material negative impact on the Company's results of operations or financial condition.

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

Item 1A. Risk Factors

There have been no material changes to the risk factors identified in Part I, Item 1A, *Risk Factors*, of the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2013.

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

The following tabular summary reflects the Company's share repurchase activity during the quarter ended June 29, 2014:

ISSUER PURCHASES OF EQUITY SECURITIES (1) (2)

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (3)
March 31 – April 27	8,012	$15.01	8,012	$ 9,088,000
April 28 – May 25	55,000	$11.98	55,000	$ 8,429,000
May 26 – June 29	—	$ —	—	$ 8,429,000
Total	63,012		63,012	$ 8,429,000

(1) All shares were purchased under the Company's current share repurchase program, which was announced on November 1, 2007 and authorizes the repurchase of the Company's common stock totaling $20.0 million. Under the authorization, the Company may purchase shares from time to time in the open market or in privately negotiated transactions in compliance with the applicable rules and regulations of the SEC. However, the timing and amount of such purchases, if any, would be at the discretion of management and would depend upon market conditions and other considerations. Since the inception of the initial share repurchase program in May 2006 through June 29, 2014, the Company has repurchased a total of 2,019,150 shares for $26.6 million, leaving a total of $8.4 million available for share repurchases under the current share repurchase program.

(2) The Company's dividends and stock repurchases are generally funded by distributions from its subsidiary, Big 5 Corp. The Company's Credit Agreement contains covenants that require it to maintain a fixed charge coverage ratio of not less than 1.0:1.0 in certain circumstances, and limit the ability to, among other things, pay dividends or repurchase stock. The Company may declare or pay cash dividends or repurchase stock only if, among other things, no default or event of default then exists or would arise from such dividend or repurchase of stock and, after giving effect to such dividend or repurchase, certain availability and/or fixed charge coverage ratio requirements are satisfied. See Part I, Item 2, *Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources*, for a further discussion of the Credit Agreement.

(3) This amount reflects the dollar value of shares remaining available to repurchase under previously announced plans.

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Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

(a) Exhibits

Exhibit Number	Description of Document
15.1	Independent Auditors’ Awareness Letter Regarding Interim Financial Statements.
31.1	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certification of Chief Executive Officer.
32.2	Section 1350 Certification of Chief Financial Officer.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Definition Linkbase Document.
101.LAB	XBRL Taxonomy Label Linkbase Document.
101.PRE	XBRL Taxonomy Presentation Linkbase Document.

SIGNATURES

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

BIG 5 SPORTING GOODS CORPORATION,
a Delaware corporation

Date: July 30, 2014	By: /s/ Steven G. Miller Steven G. Miller *Chairman of the Board of Directors,* *President and Chief Executive Officer*
Date: July 30, 2014	By: /s/ Barry D. Emerson Barry D. Emerson *Senior Vice President,* *Chief Financial Officer and Treasurer* *(Principal Financial and* *Accounting Officer)*

July 30, 2014 **Exhibit 15.1**

Big 5 Sporting Goods Corporation
2525 East El Segundo Boulevard
El Segundo, CA 90245

We have reviewed, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the unaudited interim financial information of Big 5 Sporting Goods Corporation and subsidiaries for the periods ended June 29, 2014 and June 30, 2013, as indicated in our report dated July 30, 2014; because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended June 29, 2014, is incorporated by reference in Registration Statement Nos. 333-179602, 333-149730 and 333-104898 on Form S-8.

We also are aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, is not considered a part of the Registration Statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

/s/ DELOITTE & TOUCHE LLP

Los Angeles, California

Exhibit 31.1

CERTIFICATIONS

I, Steven G. Miller, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Big 5 Sporting Goods Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 2014

/s/ Steven G. Miller

Steven G. Miller
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Barry D. Emerson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Big 5 Sporting Goods Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 2014

/s/ Barry D. Emerson

Barry D. Emerson
Senior Vice President, Chief Financial Officer and Treasurer

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q of Big 5 Sporting Goods Corporation (the "Company") for the period ending June 29, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven G. Miller, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Steven G. Miller

Steven G. Miller
President and Chief Executive Officer

July 30, 2014

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

Exhibit 32.2

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

In connection with the Quarterly Report on Form 10-Q of Big 5 Sporting Goods Corporation (the "Company") for the period ending June 29, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Barry D. Emerson, Senior Vice President, Chief Financial Officer and Treasurer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Barry D. Emerson

Barry D. Emerson
Senior Vice President, Chief Financial Officer and Treasurer

July 30, 2014

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